The Canadian Chartered Accountant

- The Teaching in Canada of Income Tax Theory and Practice
  by Kenneth F. Byrd

- Balancing the Unbalanced Sheet Funds
  by James R. Neff

- La Présentation des Etats Financiers aux Trois Paliers des Gouvernements
  par Rosaire Courtois

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

APRIL 1951

$5.00 A YEAR - 50c A COPY

The Canadian
Chartered Accountant

VOLUME 58 APRIL 1951 NUMBER 4

PUBLISHED MONTHLY

By The Canadian Institute of Chartered Accountants

R. F. BRUCE TAYLOR, F.C.A., *Chairman, Editorial Committee*

Editorial and Business Offices, 10 Adelaide Street East, Toronto, Ontario

MELVILLE PIERCE, *Managing Editor* JEAN VALE, *Assistant Editor*

Advertising Representatives: T. G. VATCHER & SON, 67 Yonge St., Toronto, Ont.

Subscriptions to *The Canadian Chartered Accountant* and *The Tax Review*: $5.00 a year. Additional subscriptions to *The Tax Review*: $3.00 a year.

Single copies 50c. Single copies of *The Tax Review* 50c.

A volume index to *The Canadian Chartered Accountant* is published semi-annually and to *The Tax Review* annually.

Opinions expressed in articles and comment are not necessarily endorsed by The Canadian Institute of Chartered Accountants.

Advertising rates on request

Authorized as second class mail by the Post Office Department, Ottawa

POSITION WANTED

Chartered accountant with varied experience desires permanent industrial position preferably in Kitchener. Would consider position with professional firm with partnership possibility. Box 176, The Canadian Chartered Accountant, 10 Adelaide St. E., Toronto, Ont.

POSITION OFFERED

Chartered Accountant — 30 to 35 years of age — wanted as Comptroller for hydro-electric public utility in Atlantic Maritime Province. Previous public utility experience desirable, but not essential. Applicant should have initiative, possess executive ability and be capable of handling staff. Knowledge of public relations desirable. Salary commensurate with qualifications and ability.

Box 178, The Canadian Chartered Accountant, 10 Adelaide Street East, Toronto, Ont.

REQUIRED IN NORTHERN ONTARIO

Northern Ontario firm has opening for experienced chartered accountant. Permanent position with good prospects. Apply Box 175, The Canadian Chartered Accountant, 10 Adelaide St. E., Toronto Ont.

YOUNG CHARTERED ACCOUNTANT WANTED

By Toronto firm of chartered accountants. Give full particulars of experience, salary requirement, etc. to Box 177, The Canadian Chartered Accountant, 10 Adelaide St. E., Toronto, Ont.

The Canadian Chartered Accountant

VOLUME 58 APRIL 1951 NUMBER 4

COMMENT AND OPINION

The 1951 Annual Meeting

ARRANGEMENTS for the 1951 annual meeting were decided upon at the recent meeting of the Executive Committee of the Canadian Institute held in Toronto.

General sessions and entertainment open to all members will be held at Banff on Tuesday, Wednesday, and Thursday, September 4, 5, and 6. The Council of the Institute and certain committees will commence their business sessions at Banff on Monday, September 3 (Labour Day). Prior to these meetings, the Executive Committee and the Committee on Education and Examinations will meet in Calgary.

Full details will be available in June or July. It is hoped that this early announcement of dates will enable many of our members and their ladies to make plans to attend the convention.

Change of Name

AN Act causing the name"The Dominion Association of Chartered Accountants" to be changed to "The Canadian Institute of Chartered Accountants" was assented to on March 21, 1951. The titles "D.A.C.A." and "The Association" have become by-words in this magazine over its 40 years of publication and those of us concerned with the preparation of *The Canadian Chartered Accountant* will not only be sorry to see them disappear but will have to make a real effort to ensure that some gremlin does not let them pop up where they do not belong. "C.I.C.A." and "The Canadian Institute" will seem strange for awhile and we shall all have to become used to them.

This change has caused considerable extra work for the staff of the Association. All letterheads, logotypes, seals, etc. are being redesigned. It is not expected, however, that alterations will be made in the format of this magazine or in *The Tax Review* except those directly concerned with the change of name of the publisher.

The D.A.C.A., under its new title of C.I.C.A., will hold its golden jubilee during 1952. May it long continue under the new name to deal with the Canadian problems and phases of the accounting profession. The C.I.C.A. has a rich heritage developed in 50 years of progress. Each one of its members has played a part in its success by adherence to the traditions and ethics, and broad-mindedness of our great profession in Canada.

"Be Prepared"

A PRESS release of The Boy Scouts Association tells us that W. E. Falconer, winner of the D.A.C.A. gold medal in the October 1950 final examinations, is cubmaster of the Iona Wolf Cub Pack in Montreal. The work of a cubmaster takes a great deal of time,

effort, and concentration and this is a special reason for extending our congratulations to him. Mr. Falconer appears to be carrying the motto "Be Prepared" into his business as well as his personal life.

The American Accounting Association

THE American Accounting Association has issued an invitation to our members to join that organization, which is open to all persons interested in the advancement of accounting education and the profession. The Association was originally established to provide an opportunity for acquaintanceship among the accounting teachers and to stimulate the exchange of ideas. In more recent years the Association has been actively engaged in the development of "generally accepted accounting principles". Its principal activities consist of the work of its committees, its publications, and its annual conventions. Present membership is approximately 4100, not including associate members who are students actually registered in academic courses and so certified by an instructor who is a member of the Association.

Much of the influence of the Association is exerted through its publications, the major one being *The Accounting Review* regularly published in January, April, July and October of each year. All members and associate members receive the Review without additional charge beyond membership dues.

Dues for members resident in Canada are $5.50 U.S. per annum and application forms may be obtained from the office of *The Canadian Chartered Accountant* or from the Secretary-Treasurer, American Accounting Association, The College of Commerce and Business Administration, The University of Illinois, Urbana, Ill.

We recommend *The Accounting Review* to our members as a useful addition to their current reading.

TIME-TABLE OF 1951 EXAMINATION

The Board of Examiners-in-Chief announce that the 1951 uniform examination of the Institutes of Chartered Accountants in Canada will be held in October according to the following timetable:

Wednesday, October 17	9 a.m. to 1 p.m.	FINAL AUDITING I
	2 p.m. to 6 p.m.	INTERMEDIATE AUDITING I
Thursday, October 18	9 a.m. to 1 p.m.	FINAL AUDITING II
	2 p.m. to 6 p.m.	INTERMEDIATE AUDITING II
Friday, October 19	9 a.m. to 1 p.m.	FINAL AUDITING III
	2 p.m. to 6 p.m.	INTERMEDIATE ACCOUNTING I
Monday, October 22	9 a.m. to 1 p.m.	FINAL ACCOUNTING I
	2 p.m. to 6 p.m.	INTERMEDIATE ACCOUNTING II
Tuesday, October 23	9 a.m. to 1 p.m.	FINAL ACCOUNTING II
Wednesday, October 24	9 a.m. to 1 p.m.	FINAL ACCOUNTING III

The Teaching in Canada of Income Tax Theory and Practice

By Kenneth F. Byrd, M.A. B.Sc. (Econ.), A.C.A.
Professor of Accountancy, McGill University

Income Tax affords a useful and, above all, a needful field of study

The Unimaginative Argument

IT is often maintained by the unimaginative, who are not lacking in number, that the study of income tax should take place in the world of practical experience. It is argued that the student must, in his daily work, be able to see the *Income Tax Act* working in practice, failing which, it is said, it is useless for him to theorize. Now a very good case can be made for the study of income tax theory in general but, for present purposes, the study of Canadian income tax is under consideration. In this case any possible validity in the unimaginative argument will depend on the extent to which the Act itself is capable of logical interpretation and application. Rules which are sufficiently definite can be applied with confidence in the working out of detailed problems. The soundness or otherwise of the rules may be judged by the extent of their success in achieving objects which are themselves economically justifiable. Taxation is justified as a means of raising from a community those funds which are necessary for the governing of that community in the interests of all members. The specific rules laid down will be justifiable in so far as they succeed in distributing the burden of taxation equitably among members according to their means.

The Income War Tax Act, 1917-1948

For 31 years, until January 1, 1949, Canada's Dominion taxation was governed by the *Income War Tax Act*. Dating from the first World War this Act had by 1948 become a hotch-potch of amendments grafted on a stem which had grown gnarled and knotted with the changing years. It had 18 parts, 97 sections and 5 schedules, yet in all its unwieldy length there was comparatively little that was capable of exact determination in theory. The Act shrank from actual definition, leaving far too many matters to be determined by ministerial discretion. Such a situation clearly gave some support to the unimaginative argument already stated.

The Income Tax Act, 1948, c. 52

The objects of the new Act, which became law on June 30, 1948 and applies to all taxation years after 1948, were stated to be (1) to codify and consolidate the old Act, (2) to clarify the wording, (3) to eliminate most of the administrative discretion in the application of the taxing provisions. There can, in-

deed, be no doubt that this new Act is vastly superior to the old. It has left relatively few matters to ministerial discretion and, for the most part, it is readable and should be suitable for intelligent study by college undergraduates in commerce and accountant students in training. While, therefore, the old Act gave grounds for its neglect in our courses of study — though even here the neglect seems to have been far too indiscriminate — these grounds have been removed and the principles and practice of income tax is a subject overdue for proper treatment during the years of university training.

The Student's Introduction to the ITA

The new Act, which applies to the 1949 and subsequent taxation years, is drawn up in orderly fashion with short opening sections which soon lead the student into the heart of his subject. Division A briefly states who is liable for tax and defines taxable income in relation to income. Division B gives in reasonably brief form the general rules for computation of income. The student should not be dragged through all of these rules indiscriminately. He should be taught the basic principles and acquainted with their practical working by the assignment of varied and carefully selected problems drawn from everyday life. Such problems may be found in public accountancy examination papers in large variety and the student may be introduced to them quite early in his course. Unfamiliar items should lead to a searching of the Act and no attempt should be made to "clear" the Act in the first place. The Act purports to tax only income and the student must consider what comes under this heading. No definition of income is given in the new Act which states that a taxpayer's income is his income from all sources, including income from businesses, property, and offices and employments. Income from these sources is defined and the student should be led to consider to what extent, if at all, the income tax requirements differ from generally accepted accounting principles. For example, the fact that discount on debentures is actually an advance calculation of interest payable, accruing over the life of the debentures, is not recognized for income tax purposes, so that no portion of the discount may be charged as an expense in any year. Also the new depreciation regulations will give cause for reflection in this connection. Detecting these points of difference and weighing them up is all part of the student's training. The student should also be led to think logically about the question of what is an allowable deduction in arriving at income for tax purposes. The old Act provided that a deduction should not be allowed in respect of "disbursements or expenses not wholly, exclusively and necessarily laid out or expended for the purpose of earning the income". As against this the new Act says that "no deduction shall be made in respect of an outlay or expense except to the extent that it was made or incurred by the taxpayer for the purpose of gaining or producing income from property or a business of the taxpayer". There seems to be no material difference in effect between these two provisions. The essential pre-requisite for any expense to be allowed is that it shall be an expense incurred in the earning of revenue subject to tax. The new Act's definition of income from business or property as the "profit", without any definition of profit, leaves the matter to be decided on the basis of generally accepted accounting principles, in the case of deductions not specifically included in the prohibition.

Division B is not lengthy but for immediate practical purposes the student may be introduced direct to Division C which deals with the computation of tax-

able income by deductions from income. In sections 25 and 26, numbers which, at least, he will surely soon know by heart for reference purposes, he will find a happy hunting ground of important rules essential to the drawing up of individual assessments. Here are defined the personal allowances for married and single status, respectively, allowances for dependent children and other dependents, deductions for medical expenses, charitable donations, and so on. Section 26 introduces the economically important provisions for carrying business losses back one year or forward five years, to counteract the effect of artificially dividing business transactions into periods of one year for taxation purposes. The historical evolution of such provisions, since their first introduction in Canada in 1941, should be studied to gain full appreciation of their significance. Division D deals briefly with taxable income earned in Canada by non-residents and then Division E proceeds with the actual tax computation. Here gradations of income are specified for the computation of tax for individuals at progressive rates, and a further surtax is imposed on investment income, as defined. The student should note the "notch provision" of section 31(8) which has replaced the old permissive provision of a gift to the Crown, eliminating the anomaly by which a slight increase in income might otherwise result in a greater increase in tax payable. This division also includes provisions for the taxing of corporations.

So much for the general outline of the first half of the Act. There is little in this first half that is unsuitable for study by an average student. With the information here contained he should be able to deal with most straightforward assessments, developing his judgment all the time as he seeks to apply the provisions of the Act and follow its general principles. More specific problems are provided for later in the Act, and these will give plenty of material for further investigation.

Professor Kenneth F. Byrd, M.A., B.Sc. (Econ.), was born in South Africa, but was educated in England. He returned to Natal in 1929 as lecturer in accounting and auditing at Natal University College, later becoming Dean of the Faculty of Commerce and Administration at Natal University College. He was appointed Professor of Accounting at McGill University in 1949. He is a member of the Natal Society of Accountants and of the Institute of Chartered Accountants in England and Wales.

Annual Amendments to the Act

It will, of course, be necessary to keep fully up-to-date with amendments to the Act, year by year. This is supposed by some to be a serious obstacle to the study of this subject. But a student can surely be expected to study each year's amending Act and the budget speech. The publication of a *Consolidation Act* (such as that published by the Dominion Association of Chartered Accountants) each year soon weaves the changes into the main substance of the Act, so that it is not normally necessary for beginners to study more than the amendments of the current year.

Precedents Derived from Case Law

Case law should also play its part in the student's training. Under the new Act a volume of precedents derived from case law is rapidly developing, and some of the main decisions, involving questions of principle, should be known to the student. However, unless he is specializing in taxation, for which at present he is given little opportunity in

our schools of commerce, his investigation into case law can hardly be extensive except, perhaps, in the case of a student working on a taxation thesis. Nevertheless this aspect of the subject should not be ignored.

The Study of Income Tax Theory

Some stress has already been laid on the need for the study of income tax theory. If this subject is to be a proper one for a university curriculum it must not be merely factual and mechanical. It must stimulate the student's imagination and train his judgment. There can be little doubt that a properly conducted course in taxation will meet these requirements. In the beginning the student must study for himself and under the guidance of his instructor certain fundamentals. The question of "income" has already been mentioned. The student must, in principle, know what is to be taxed and he must study what the Act conceives to be income and, therefore, taxable.

(i) *Depreciation*

Consideration of income determination will inevitably lead him to a study of the new provisions in the Act under section 11(1)(a), as interpreted by the regulations, and under section 8 of the *Amendment Act,* 1949(II), c. 25, the transitional provisions as to the capital cost at which assets are to be deemed to have been acquired at the commencement of the 1949 taxation year, and the published capital cost allowance regulations, made by order in council, will need careful study. The student has now found a subject which may well engage his attention. It is of first importance today, for it affects profoundly the commercial and industrial life of the Dominion. Here, above all, the income tax authorities seem, very arbitrarily, to have parted company with good accounting practice. The diminishing balance method of depreciation provision, now officially prescribed to replace the straight line method, is not of course new. On the contrary it is old and out of date and dangerously simple. Yet it is still a generally accepted accounting method though out of favour in Great Britain which was its former home. But the extraordinary provisions for carrying forward profits or losses on realization of assets comprising any part of a group of continuing assets, so that such profits or losses will almost inevitably be merged into the "live" assets total on the balance sheet, long after the assets in question are "dead" — these extraordinary provisions run counter to the rules of accountancy. It is true that, as a result of protests from the Dominion Association of Chartered Accountants and others, Regulation 1100(4), which originally had the effect of penalizing concerns which in any year wrote off more depreciation in their books than was allowed for income tax purposes, has now been amended. The taxpayer may now, without penalty, reflect depreciation provision in his books and accounts on a basis differing from the income tax requirements. But so long have businesses been forced to use one and the same basis for the two purposes that, it is to be feared, many concerns will continue to do so. Any means by which the true position may still be reflected on the balance sheet, in these circumstances, merits careful consideration. In this connection the student may seek the best way of obtaining the facts over a period of years for purposes of examination questions. He will find it necessary to keep separate columns, one for each asset of a group, and a total column. In the case of assets disposed of there may then be a positive or negative balance to carry forward for future depreciation with the "live" assets of the group, according to whether realization was below or above book value, with due regard to the deem-

ed capital cost at the beginning of the 1949 taxation year. The column totals will show, at any time, how the net balance for aggregate assets of each class or group is divided between (a) actually existing assets, which should be shown separately as such on the balance sheet, (b) any recaptured depreciation on realization, now carried forward for amortization and to be shown as a separate credit on the balance sheet, and (c) any loss on realization of assets, now carried forward as if it were still an asset, but to be shown separately on the balance sheet. This subject cannot be considered further here, but this is a matter for study at college — it need not and should not be left until the student comes across it in practice.

(ii) *Relief from Double Taxation*

The *Income Tax Act* makes some provisions for the purpose of alleviating the burden of so-called double taxation of corporate profits, i.e., taxation of the profits first in the hands of the corporation and, secondly, as dividends in the hands of recipient shareholders. A proper understanding of the basic justification of the "10% dividend credit" will explain to a student why this is a credit against the actual tax otherwise payable by the individual shareholder and *not* against the taxable income. It is a deduction made from the shareholder's tax in respect of the tax already paid for him by the corporation in which he holds shares. Then there is the important new section 95A to be considered, by which a private company may elect to free its shareholders from further liability for tax on undistributed income by paying a tax of 15% on such untaxed undistributed income. This is an important concession to closely-held companies to mitigate the effect of double taxation. Section 73(4) of the Act in effect exempts from taxation in the hands of recipient shareholders dividends paid out of tax-paid undistributed income of corporations, and such tax-paid undistributed income will include, in the case of private corporations, the income on which the 15% tax has been paid under section 95A. This means that the maximum tax payable on such income will be 53%, comprising the normal 38% plus the special 15%. As this 15% is at present the lowest rate of tax payable by individuals it is obvious that shareholders in private companies stand to save very considerably by the new concession. Such concessions have been made only after repeated representations to the authorities. It is to matters of principle and equity such as this, judged by a consideration of the extent to which the *Income Tax Act* succeeds in its presumed task of raising funds by equitable distribution of the burden throughout the community, that the attention of advanced students should be directed during their college years.

(iii) *The Taxation of Inflation Profits*

One more such problem may be mentioned — the problem of the taxation of inflation profits, so closely connected with the problem of accounting for changing money values. The accounting profession is faced with a growing need for decision as to just when the value of a country's currency has reached so low a position as to make it imperative for long-term investments expressed in currencies of long ago to be converted into currencies of equivalent current value. There have been plenty of examples of the need for isolating such inflation profits and of the injustice of taxing them. One method of excluding them, but only in the case of the short-term asset, inventories, is to use the LIFO method of valuation. The experience of the United States Steel Corporation in the last quarter of 1949, in this connection, shows how important to a company may be the profits so exclud-

ed. Thus when the steel strike forced the company, during that quarter, to use its base stock of raw materials, valued at 1940 prices, the charging of this relatively low cost against 1949 sales resulted in an abnormal profit of $17,000,000 for the quarter. On this the company had to pay $7,000,000 tax, and yet it obviously was faced with the necessity of using at least the whole $17,000,000 to replace its inventories at current prices. It was only the unusual circumstances of the strike that showed up the inequity, yet exactly the same thing is taking place in the case of all pre-war capital assets. Even in the United States, which allows LIFO for tax purposes in the case of inventories, depreciation of fixed assets must, for income tax recognition, be calculated on historical cost, not on replacement value. Consequently vast sums are being paid out each year for income tax on what are actually capital profits, since income is expressed in current dollars and depreciation provision only in the dollars of years ago. In the United States, where capital profits may be subject to tax, the conflict of principle is not so serious, but in Canada, which purports to tax only income, there is clearly something about which to argue!

(iv) *Other Problems*

Other problems for the advanced student are the taxation of holding companies and related corporations and the advisability or otherwise of the election of joint assessment; the treatment of personal corporations and especially the underlying aims of the tax provisions in such cases; the provisions as to scientific research, with their distinction between capital and revenue expenditure and the essential underlying economic objects of the provisions; pension plans and special contributions by employers for past services. There is no dearth of such subjects for the keen student. They make the subject of income tax principles and practice one of absorbing interest which can be properly presented to the student and mastered by him only over a sufficiently long period to allow of thorough reading and investigation with a great deal of practice in answering problems.

Fallacy of the Argument Against University Study of Income Tax

Enough has been said to indicate the fallacy of arguing that study of income tax should be left to the years of practical experience. The man who has not studied the Act before he is immersed in the hurly-burly of business can give attention only to matters as they arise. He can find little time to study the Act as a whole and consider it critically. He can simply deal with the working of the Act in particular circumstances and follow its directions. In full-time college study the student should be able to lay much better foundations. If he studies the theory properly, considering the aims of the various sections rather than the mere application of their various provisions, he can obtain a sound knowledge from which to form his judgment for application to particular cases when the time comes. Given a sound knowledge of theory the student should be able to apply that knowledge with careful judgment to the countless individual details that occur in daily practice. College is the place for the sorting out of ideas, for allowing ideas to germinate and grow. A good student will compare some of Canada's main provisions with comparable provisions of e.g. the United States and Great Britain. He will not restrict himself merely to what is done in Canada but will seek to determine the major directions in which Canada has, perhaps, ploughed a lonely furrow. Thus he may well compare and contrast Canada's relatively new Income Tax Appeal Board with Britain's much more informal machinery for the protection of the

taxpayer and tax authorities alike. At the same time he may contrast it with the United States Tax Court which is as far removed from the Canadian Appeal Board, on the side of formality and costliness to the taxpayer, as the Canadian Board, as a court of record, is removed from Britain's informality. We must not underestimate the capabilities of our students or accept them at the students' own valuation. If we do not introduce students to important principles because they lack opportunities of seeing them work in practice we assist them to waste those opportunities for reading and criticizing which college life should offer them.

Growing Emphasis Overseas On Early Training in Income Tax

It is of interest to note that in Great Britain, the Society of Incorporated Accountants and Auditors has given notice that, beginning with its November 1951 examinations, Taxation will be specifically included as follows: in the intermediate examination, Accounting, Auditing and Taxation I, 3 hours; II, 3 hours; III, 2 hours; in the final examination, Advanced Accounting, Auditing and Taxation I and II, 3 hours each; III, 2½ hours, with, in addition, a separate 2-hour paper on Taxation. As the editorial in *Accountancy* says, "Recognition is given to the ever-growing prominence of taxation in the work of the profession." In its General Information and Syllabus of Examinations, for general guidance purposes to those deciding on a career, the Institute of Chartered Accountants in England and Wales says: "The incidence of income tax and surtax, death duties, profits tax, corporation duty and other taxes is in each case essentially a matter of law; but the assessment of such taxes is so closely linked with the financial accounts that taxation matters have become a large and important part of the practice of a chartered accountant, involving the preparation of computations and returns for taxation purposes, negotiations with the revenue authorities and advice to clients. Taxation statutes and case law accumulate from year to year and become increasingly complex; a student, therefore, finds that the subject is one on which his theoretical knowledge must be very considerable before he can begin to take an active part in the practical work of his office. It is only by continuous experience and study that he can obtain the knowledge required and keep himself up-to-date. The intermediate examination of this Institute includes a 3-hour paper on taxation and cost accounting, the former comprising "The law and principles of income tax, surtax and profits tax and their application, and the preparation of computations for submission to the Inland Revenue". In the final examination there is a separate 3-hour paper on taxation alone, on the same general lines. Overseas, therefore, it is clear that experience has shown the necessity for the early commencement of the study of taxation principles, in view of the ever-growing importance of the subject to the accountancy profession.

Income Tax in the University Curriculum

There can, in my opinion, not be the slightest doubt that income tax theory and practice should be represented by at least a half-course in any university curriculum for a commerce degree, and that the course, whether half or whole, should be spread over a full academic year of study. To deal with it adequately in a handful of lectures, under the general subject of accountancy, seems quite impossible. For large numbers of professional accountants today income tax consultation and practice represents a very large portion of their work. There can be no doubt that people in general look

to the professional accountant for advice and assistance in dealing with what to them is the menace of income tax. Can the accountant prepare himself for such important work by a very few lectures during his early training years, plus any amount of practical experience on a trial and error basis? If he does, then his errors may be serious and his advice untrustworthy. A good accountant will do all he can to enable his client to avoid unnecessary payment of tax. There is, of course, a world of difference between tax avoidance and tax evasion. With the latter the professional accountant will have nothing to do but with the former he should have everything to do. For this responsibility he should be preparing himself in his years of early training, when he has time to make an intensive and extensive study of principles. It is not in his post-graduate years but in his years of pre-examination study that the expert accountant should prepare himself to be an expert in income tax. The word "prepare" is important, of course. He will not be an income tax expert until he has, over an extended period, applied his theoretical knowledge to specific practical circumstances. But the application can come only after a thorough study of theory.

Conclusion

Let us, therefore, meet these needs which are finding ever-growing expression in the accountancy world and in the general world of commerce. Let us provide adequate college courses to ensure that our accountant graduates in commerce and professional accountants who qualify in our schools of commerce shall have a thorough basic knowledge of income tax principles when they start their careers. If we fail to do this we are failing our accountant students. We are also failing the business world, since it is entitled to look to our schools of commerce for qualified men with a training which we are not supplying.

MIXED METAPHORS

ON page 127 of our March 1949 issue, we had something to say on this subject with respect to the report of the chairman to the shareholders of Mitchells and Butlers Limited, the well-known brewers in the United Kingdom. *The Economist*, January 6, 1951, carries the report made recently. Speaking of beer duty (in Canada excise tax), the chairman says, "Obviously the burden being carried by the beer drinker has become unbearable, and the Chancellor may well reflect that the duty has now reached the point of diminishing returns."

La Présentation des Etats Financiers aux Trois Paliers des Gouvernements

Par Rosaire Courtois, C.A.

Une étudie des états financiers du gouvernement du Canada, des provinces de Québec et de l'Ontario et des villes de Montréal et de Toronto

Quand on m'a invité à donner une causerie sur la présentation des états financiers des gouvernements, j'ai quelque peu hésité, vu que j'étais occupé, entre autres choses, à l'abandon d'une charte d'une compagnie privée, ce qui soulevait tous les problèmes des récents amendements à la loi de l'impôt sur le revenu, et à l'établissement d'un système de prix de revient dans une industrie de textiles.

Mais si les divers problèmes d'impôts sont notre préoccupation première, on ne peut ignorer qu'il n'y a pas d'entreprises au pays qui se comparent en importance avec les gouvernements. Ceux-ci ont perçu en revenus en 1949 plus de 32% d'un revenu national de $12,900,000,000. Et quelle entreprise peut se glorifier d'-avoir un passif de $16,950,403,795.39 chiffre qui apparaît au bilan du gouvernement du Canada en date du 31 mars 1949?

Je crois qu'il nous incombe de nous tenir au courant de la position financière de nos gouvernements et pour la connaître cette situation financière, il faut comprendre leurs états financiers.

Pour les fins de ma causerie je passerai brièvement en revue les états financiers principaux du gouvernement du Canada, des provinces de Québec et de l'Ontario et des villes de Montréal et de Toronto. Pour votre information j'ai préparé des états sommaires de ces gouvernements, états qui sont ci-annexés.

Gouvernement du Canada

(*Etat No. 1*)

Le gouvernement du Canada publie dans ses comptes publics chaque année, un bilan comparatif avec l'année précédente. Ce bilan est basé sur l'établissement de la dette nette qui est l'élément clef de tous les états financiers soumis. La dette nette est établie par la différence entre le passif direct et l'actif dit réalisable et est représentée par, a) l'actif improductif y compris les dépenses de capital et des prêts, avances et comptes non actifs divers de même que, b) le compte du déficit consolidé. Ainsi au 31 mars 1949, voici comment s'établit la dette nette du gouvernement du Canada (tous les chiffres qui vont suivre vont être en millions de dollars):

Passif direct	$16,950.4
Moins: Actif réalisable	5,174.3
Dette nette au 31 mars 1949	**$11,776.1**

Causerie devant le Quebec Student Society, novembre 1950

Cette dette nette est représenté par:

a) *Actif improductif*:

i) Dépenses de capital	$1,051.6	
ii) Autres	564.3	$ 1,615.9
b) Compte du deficit consolidé		10,160.2
		$11,776.1

D'après le bilan qui est, comme je l'ai dit, sur une base comparative, la dette nette du gouvernement du Canada aurait diminué de $595.5 (millions) durant l'année 1949 et d'une façon sommaire cette diminution est indiquée à l'état de dépenses et de recettes (*Etat No 2*):

RECETTES

Recettes fiscales et non fiscales	$2,649.2
Compte du déficit consolidé	119.9
Autres crédits (contre-partie)	2.3
Total general des Recettes et Credits	$2,771.4

DEPENSES

Ordinaires		$1,573.4
Compte de capital		18.5
Démobilisation et reconversion		425.6
Dépenses spéciales		34.8
Entreprises d'Etat		39.7
Autres postes y compris le réserve pour perte possible sur la réalisation d'actifs productifs ($75.0)		81.6
Autres postes (contre-partie)		2.3
Total Général des Dépenses et Debits		$2,175.9
Excédent des recettes sur les dépenses porté au compte du déficit consolidé	$613.3	
A déduire:		
Excédent des dépenses sur les recettes compte de capital et comptes inactifs	17.8	595.5
		$2,771.4

Ainsi, la variation de la dette nette correspond au résultat de l'état de dépenses et de recettes publié. Il est à noter que cet état ne donne tout de même qu'une partie des opérations de l'année et que dans un appendice de même que dans le rapport du Sous-Ministre des finances qui précède les états financiers, l'on donne les autres opérations du gouvernement qui pour l'année 1949 se résument comme suit: (*Etat No 3*)

Diminution de la dette nette	$ 595.5
Plus: Item non sur base de caisse (net)	$ 72.9
	$ 668.4
Ajouter:	
Augmentation au compte de rentes de pensions, d'assurance et de garantie	107.3
Autres postes	43.5
	819.2
Montant net des ventes de valeur du compte portefeuille	222.4
Total des Encaissements	$1,041.6

AFFECTATION DE L'ENCAISSE

Augmentation de prêts et placements (y compris les avances à la commission de contrôle du change $450.0)	$ 607.2
Réduction de la dette flottante	7.9
Frais d'émission — emprunts (portion à amortir)	1.6
	$ 616.7
Réduction nette de la dette fondée	372.3
Total des Déboursés	$ 989.0
Augmentation de l'encaisse en 1948-49	52.6
	$1,041.6

Ainsi, bien que la dette nette ait diminué de $595.5 durant l'année, sur une base de caisse et si l'on tient compte des autres opérations non comprises dans

l'état d'opérations principal, l'année sous examen se solde par un excédent de recettes sur les déboursés de $202.5 millions dont $149.9 millions a été affecté à la réduction de la dette et le solde, soit $52.6 millions constitue une augmentation nette de l'encaisse pour l'année. La différence entre le résultat d'opérations tel que publié par le gouvernement du Canada et le montant affecté a la dette et à l'encaisse durant l'année est donc représentée principalement par des avances ou des prêts qui ne sont pas entrés comme dépenses mais portés à l'actif réalisable au bilan.

Province d'Ontario
(*Etat No 4*)

La province d'Ontario publie pour sa part un bilan qui s'établit sommairement de la façon suivante:

ACTIF

Comptes de capital	$ 726.0
Comptes de revenus	14.8
	$ 740.8

PASSIF

Comptes de capital	$ 619.4
Comptes de revenus	9.2
Réserves	1.2
Surplus	111.0
	$ 740.8

La Province d'Ontario n'établit pas son bilan sur base de dette nette. Celle-ci peut être facilement déterminée par les chiffres soumis et d'une façon rapide la dette nette de la province d'Ontario serait de $471.1 millions représentée par des immobilisations au montant de $582.1 millions moins un surplus de $111. millions.

La province d'Ontario publie un état de revenus et dépenses au compte ordinaire et un état de recettes et déboursés au compte de capital. Ce dernier état est subdivisé en immobilisations, avances et fonds spéciaux, et actifs différés. Cette province publie aussi un état du fonds consolidé du revenu (*Etat No 5*) qui est un sommaire de toutes les opérations de l'annee sur une base de caisse. L'on peut résumer de la façon suivante l'état du revenu consolidé de la province d'-Ontario pour l'année financière terminée le 31 mars 1949:

Recettes nettes:	
Ordinaires	$ 215.5
Immobilisations	.3
Prêts et avances	19.2
Fonds spéciaux	19.0
Actifs différés	16.1
	$ 270.1
Dette publique produit des emprunts, etc.	130.4
	$ 400.5
Ajouter: Fonds d'amortissement non investis au 31 mars 1948	.6
Espèces en banque au 31 mars 1948	12.3
	$ 413.4
Déboursés nets:	
Ordinaires	$ 206.3
Immobilisations	41.7
Prêts et avances	.7
Fonds spéciaux	14.8
	$ 263.5
Dette publique remboursements d'emprunts, etc.	138.6
	$ 402.1
Ajouter: Fonds d'amortissement non investis au 31 mars 1949	2.6
Espèces en banque au 31 mars 1949	8.7
	$ 413.4

Cet état indique que les déboursés ordinaires et en immobilisations ont excédé les recettes correspondantes d'une somme de $32.2 millions. Par contre, les recettes

provenant des prêts et avances et des fonds spéciaux ont excédé les déboursés de $38.8 millions laissant un solde favorable de $6.6 millions qui a été affecté à la dette et à l'encaisse.

En ce qui concerne la province d'Ontario, c'est donc cet état du fonds consolidé qu'il faut examiner pour obtenir toutes les opérations de l'année.

Province de Québec

La Province de Québec publie chaque année dans ses comptes publics un bilan, qui est lui aussi, à base de dette nette (*Etat No* 6). Voici un état sommaire de ce bilan au 31 mars 1949:

PASSIF	
Dette exigible	$ 26.1
Revenus différés	5.3
Dette consolidée nette et bons du Trésor	358.5
Total du passif direct	$ 389.9
ACTIF	
Actif réalisable (y compris le solde non amorti de l'escompte sur obligations émises $4.1)	90.5
Dette Nette au 31 mars 1949	$ 299.4

Cette dette nette est représentée par:

Immobilisations	$ 430.9
Dépenses extraordinaires	131.7
	$ 562.6
Moins: Montant accumulé à même les revenus comme amortissement des actifs précédents	98.5
	$ 464.1
Moins: Surplus consolidé	164.7
	$ 299.4

La Province de Québec ne publie pas un état général de caisse mais donne un état de revenus et dépenses qui est établi de la façon suivante:

Revenus ordinaires	$ 194.5
Moins: Dépenses ordinaires	160.7
Excédent des revenus sur les dépenses ordinaires	$ 33.8
Moins: Dépenses en immobilisations	64.8
Excédent des dépenses de toutes natures sur les revenus pour l'exercice terminé le 31 mars 1949	$ 31.0

La Province de Québec ne donne pas de conciliation de la variation de la dette nette avec son compte de revenus et dépenses. Celle-ci peut tout de même être facilement établie, d'une façon globale par la comparaison des bilans, et d'une façon détaillée par l'examen des annexes au bilan. D'une façon générale la variation de la dette nette chaque année est établie par l'excédent des revenus ordinaires sur les dépenses ordinaires et de capital ou vice-versa plus ou moins selon le cas, les montants affectés aux fonds d'amortissement.

J'arrive maintenant aux villes de Toronto et de Montréal.

Cité de Toronto

La Cité de Toronto divise son bilan (*Etat No* 7) en deux sections, la section courante et la section de capital. Son compte d'opérations s'établit comme suit en prenant pour exemple l'année 1949:

REVENUS	
Revenus provenant de la taxation et revenus généraux	$ 52.9
DEPENSES	
Dépenses générales	$ 45.2
Dépenses de la dette	7.7
	$ 52.9

La ville de Toronto publie dans un

état séparé ses dépenses en immobilisations qui se totalisent pour l'année sous examen à $10.5 millions. Il est à noter que ces dépenses en immobilisations faites à même les emprunts ne sont pas comprises dans son état de revenus et dépenses. La Cité de Toronto ne publie pas de compte général de caisse mais publie un état comparatif de revenus et dépenses pour les dernières dix années qui exclut les surplus ou les déficits des années précédentes. De plus, la Cité de Toronto ne garde pas en, somme, de surplus. La note suivante inscrite au bilan en date du 31 décembre 1949 nous l'indique:

> Le surplus de 1949 qui ordinairement serait disponible pour réduction d'impôts au montant de $161,084.02, a été ajouté à la provision pour octroi à l'Université de Toronto.

Cité de Montréal

La Cité de Montréal publie depuis 1949 un bilan consolidé (*Etat No 9*) qui peut se représenter de la façon sommaire suivante:

PASSIF

Passif direct	$206.0
Réserves et surplus	23.7
	$229.7

ACTIF

Actif réalisable	$ 42.1
Dépenses consolidées sur autorisation d'emprunts réduites des remboursements d'emprunts	187.6
	$229.7

Le bilan comporte aussi des notes quant à certains actifs et aux passifs différé et contingent qui sont donnés en annexes. Bien que la cité n'indique pas spécifiquement sa dette nette, celle-ci s'établit par la différence entre la somme de $187.6 millions indiquée plus haut et les surplus au montant de $23.7 millions, donc à $163.9 millions.

La Cité de Montréal publie un état de revenus et dépenses du fonds général (*Etat No 10*) qui s'établit de la façon sommaire suivante pour l'année terminée le 30 avril 1950:

Revenus ordinaires	$ 73.2
Moins: Dépenses courantes	67.3
Excédent du revenu ordinaire sur les dépenses courantes porté au surplus disponible	$ 5.9
Revenus d'un exercice antérieur utilisés selon les dispositions du règlement No 1735 (surplus approprié)	$ 2.5

Cette somme de $2.5 millions qui provient des années précédentes a été dépensée de la façon suivante durant l'exercice terminé le 30 avril 1950:

Remboursement d'emprunts à échoir au cours d'un exercice subséquent	$ .6
Dépenses et réserves pour immobilisations	1.9
	$ 2.5

Ainsi, dans son état d'opérations, la Cité de Montréal donne séparément dans un même état les opérations dont le solde est porté au surplus disponible et les dépenses faites durant l'année à même le surplus approprié dans les années précédentes.

Durant l'année terminée le 30 avril 1950, la Cité de Montréal a diminué sa dette nette de $7.0 millions pour s'établir à cette date à $163.9 millions. La conciliation de la variation de la dette nette avec le résultat d'opérations publié est assez complexe et n'est pas publiée par la Cité.

La Cité de Montréal, en outre des financiers déjà mentionnés, publie ses états financiers par fonds et ne donne

pas d'état général de caisse. Ses dépenses de capital faites à même l'emprunt, n'-apparaissent pas dans l'état de revenus et dépenses mentionné précédemment mais sont données à l'état No 49 qui établit la variation durant l'année du poste "dépenses consolidées sur autorisation d'emprunts réduites des remboursements d'emprunts" apparaissant au bilan.

Comparaison des Diverses Présentations

En somme, tous les gouvernements présentent leurs états financiers d'une façon différente.

Le Gouvernment du Canada et la province de Québec publient un bilan basée sur la dette nette. La province d'Ontario et les villes de Montréal et de Toronto ne font pas ressortir la dette nette mais celle-ci peut être déterminée par leurs états publiés.

Par contre, seuls le gouvernement du Canada et la Province d'Ontario publient un état général de caisse où ressortent toutes les opérations de l'année.

Mais la différence fondamentale réside dans la présentation du compte d'opérations des municipalités en regard du compte d'opérations des autres gouvernements. Les gouvernements fédéral et des provinces sous examen inscrivent à leurs comptes d'opérations les dépenses en immobilisations (pour chemins, ponts, bâtisses, etc.) que l'on ait pourvu à celles-ci par le revenu ordinaire ou par l'emprunt. D'un autre côté, les municipalités n'entrent pas dans leurs comptes d'-opérations les dépenses en immobilisations faites durant l'année si ces dépenses ont été faites à même l'emprunt. Seuls l'intérêt et les échéances en capital durant l'année de ces mêmes emprunts sont inscrits au compte d'opérations. Ainsi, la Cité de Montréal pourrait dépenser à même l'emprunt disons $50. millions dans une année pour la construction d'un métro sans qu'aucune inscription n'en soit faite à son compte de revenus et dépenses si ce n'est l'intérêt et l'échéance en capital sur ces emprunts affectant l'-année sous examen.

Il résulte de ce qui précède, que pour étudier les finances d'un gouvernement, il ne faut pas se limiter au bilan et à l'état d'opérations, mais dans le cas du fédéral et des provinces, il faut tenir compte des avances et prêts qui ne sont pas inscrits au compte d'opérations; on peut, soit les retracer dans un compte de caisse général ou par la comparaison des bilans. Pour les municipalités, il faut examiner en plus du bilan et du compte d'opérations les dépenses faites à même l'emprunt. La Cité de Montréal donne comme état séparé (*Etat No 49*) l'information requise à ce sujet.

Conclusion

Lors de sa dernière assemblée annuelle, la Dominion Association of Chartered Accountants a formé un comité spécial dans le but de faire l'étude et des recommandations sur la présentation des états financiers des gouvernements. Même si j'ai accepté de faire partie de ce comité, je crois que je puis vous donner en terminant ce que je crois qu'un gouvernement devrait publier comme états financiers majeurs permettant une étude plus complète des changements apportés à sa situation financière durant l'année:

a) Un bilan consolidé ou la dette nette serait établie ou pourrait être facilement déterminée;

b) Un état de revenus et dépenses;

c) Un état général sommaire de caisse;

d) Un état conciliant la variation de la dette nette durant l'année avec le résultat de l'état de revenus et dépenses publié.

L'étude de ces états est incomplète si l'on ne tient pas compte du passif indirect ou éventuel dont le détail est généralement donné en annexes au bilan.

D'ailleurs pour obtenir une information complète de la situation financière des gouvernements, il faudrait un bilan qui consoliderait leurs bilans actuels avec les entreprises d'état qui relèvent d'eux.

J'ose croire que ces commentaires nécessairement abrégés et limités aux états financiers, vous aideront à comprendre plus facilement les états des gouvernements, tels que publiés.

ETAT NO. 1 — GOUVERNEMENT DU CANADA

Bilan au 31 Mars 1949 et Comparaison avec le 31 Mars 1948
(en mille dollars)

Actif	1949	1948	Aug. (+) ou Dim. (—)
Caisse	$ 90,671.	$ 38,042.	
Autres valeurs mobilisables et avances de fonds de roulement	1,569,588.	1,355,417.	
Prêts et mises de fonds dans organismes d'Etat	1,058,936.	979,741.	
Autres prêts et placements	2,578,607.	2,486,131.	
Comptes de dettes des provinces	2,296.	2,296.	
Frais différés perte et comm. non amortis emprunts	65,785.	72,655.	
Comptes d'ordre divers	54,256.	62,313.	
	$ 5,420,139.	$ 4,996,595.	$423,544. (+)
A déduire: Pertes éventuelles à la réalisation définitive d'actif productif	245,869.	170,882.	74,987. (+)
	$ 5,174,270.	$ 4,825,713.	$348,557. (+)
Dette nette représentée par:			
a) Actif improductif:			
Dépenses de capital	$ 1,051,577.	$ 1,035,428.	
Autres	564,330.	562,716.	
b) Compte du deficit consolidé	10,160,229.	10,773,493.	
	$11,776,136.	$12,371,637.	$595,501. (—)
	$16,950,406.	$17,197,350.	$246,944. (—)
Passif			
Dette flottante	$ 450,700.	$ 458,605.	
Comptes de fiducie et de defiducie	107,501.	115,666.	
Comptes d'assurance, de pensions et de garantie	718,016.	610,732.	
Crédits différés	4,351.	3,980.	
Comptes d'ordre divers	59,618.	31,433.	
Comptes de dettes des provinces	11,920.	11,920.	
Réserves pour certaines éventualités	13,263.	7,632.	
Dette fondée non échue	15,585,037.	15,957,383.	
	$16,950,406.(1)	$17,197,350.	$246,944. (—)

(1) Ce montant ne comprend pas le passif indirect ou éventuel donné en appendice dans les comptes publics.

ETAT No. 2 — GOUVERNEMENT DU CANADA

Etat de Depenses et de Recettes

Annee Close le 31 Mars 1949
(en mille dollars)

RECETTES

Ordinaires:			
Recettes fiscales		$2,436,142.	
Recettes non fiscales		212,948.	$2,649,090.
Comptes de capital remboursements	(1)		82.
Compte du deficit consolidé			119,855.
Comptes improductifs	(1)		80.
Comptes non actifs	(1)		45.
Travaux publics, capital (divers)	(1)		2,243.
Total General des Recettes et Credits			$2,771,395.

DEPENSES

Ordinaires			$1,573,450.
Compte de capital	(1)		18,474.
Démobilisation et reconversion			425,574.
Dépenses spéciales			34,814.
Entreprises d'Etat (y compris $1,739.(1) pour prêts et avances improductifs)			39,663.
Autres postes			83,919.
Total des Depenses et Debits			$2,175,894.
Excédent des recettes sur les dépenses porté au compte du deficit consolidé		$ 613,264.	
A déduire: Excédent des dépenses sur les recettes — compte de capital et comptes inactifs		17,763.	595,501.
			$2,771,395.

(1) Ces diverses sommes établissent l'excédent des dépenses sur les recettes au compte de capital et comptes inactifs, soit $17,763.

ETAT No. 3 — GOUVERNEMENT DU CANADA

Etat Sommaire des Provenances et Affectations d'Encaisse

Annee Close le 31 Mars 1949
(en millions de dollars)

Solde net restant des recettes de l'annee		$ 668.4
Consistant en:		
Excédent des recettes sur les dépenses de l'année (exc. budgétaire)	$ 595.5	
Ajouter: Eléments compris dans les dépenses totales mais ne représentant pas de décaissements effectifs	105.0	
	$ 700.5	
Deduire: Montant compris dans les recettes totales mais ne représentant pas des encaissements effectifs	32.1	
	$ 668.4	
Augmentation aux comptes de rentes de pensions, d'assurance et de garantie		107.3
Augmentation aux comptes de crédits différés, de dépôts et fiducie et de comptes d'ordre divers		34.4
Recouvrements de prêts antérieurement consentis aux provinces et municipalités		5.4
Réduction nette des avances de fonds de roulement aux Ministères et aux Sociétés d'Etat		3.7
		$ 819.2
Montant net des ventes de valeurs du Compte Portefeuille		222.4
		$1,041.6
Affectation de l'encaisse:		
Augmentation de prêts et placements:		
Avances à la commission de contrôle du change	$ 450.0	
Autres avances et prêts	157.2	
Réduction de la dette flottante	7.9	
Frais d'émissions d'emprunts (portion à amortir)	1.6	$ 616.7
Réduction nette de la dette fondée		372.3
		$ 989.0
Augmentation de l'encaisse en 1948-49 (1)		52.6
		$1,041.6

(1) Cette différence correspond avec l'augmentation indiquée au poste de "Caisse" au bilan.

STATEMENT No. 4 — PROVINCE OF ONTARIO

BALANCE SHEET AS AT MARCH 31, 1949
(In Million Dollars)

ASSETS

Capital:		
Cash in chartered banks	$ 8.7	
Savings Office — cash on hand and in banks	.9	
Loans and advances	124.1	
Dominion of Canada	4.3	
Buildings, roads, etc	582.1	
Other loans and advances	1.1	
Discount on debentures (less proportion amortized)	4.8	$ 726.0
Income:		
Accounts receivable	$ 9.7	
Interest receivable (Due and accrued)	1.6	
Equipment, stores and materials	3.5	14.8
		$ 740.8

LIABILITIES

Capital:		
Net funded debt		$ 534.8
Unfunded debt		84.6
		$ 619.4
Income:		
Accounts payable	$ 2.0	
Accrued interest on funded debt	7.2	9.2
Reserves		1.2
Surplus		111.0
		$ 740.8
Contingent Liabilities:		
Bonds, etc. Guaranteed by the Province	$ 259.2	

STATEMENT No. 5 — PROVINCE OF ONTARIO

CONSOLIDATED REVENUE FUND

For the Fiscal Year April 1, 1947 to March 31, 1948
(In Million Dollars)

Net Receipts:	
Ordinary	$ 215.5
Capital	.3
Loans, advances, etc	19.2
Special Funds — Deposits	19.0
Deferred assets, etc.	16.1
	$ 270.1
Public Debt — Proceeds of loans, etc.	130.4
Total Net Receipts	$ 400.5
Add: Sinking funds — Uninvested 31 March, 1948	.6
Cash on Banks — 31 March, 1948	12.3
	$ 413.4
Net Disbursements:	
Ordinary	$ 206.3
Capital	41.7
Loans advances, etc.	.7
Special funds, repayments	14.8
	$ 263.5
Public Debt — Retirement of loans, etc	138.6
	$ 402.1
Add:	
Sinking funds — Uninvested 31 March, 1949	2.5
Cash in banks — 31 March, 1949	8.7
	$ 413.3

ETAT No. 6 — PROVINCE DE QUEBEC

BILAN AU 31 MARS 1949
(en millions de dollars)

ACTIF

Espèces en caisse et en banque		$ 2.4
Comptes à recevoir moins réserve	$ 20.6	
Office du Crédit Agricole du Québec	43.9	
Commission des Liqueurs de Québec	9.2	
Divers	.2	73.9
Gouvernement du Canada		2.3
Contrat avec la Banque Canadienne Nationale (contre partie du passif)		7.8
Escompte sur obligations émises		4.1
		$ 90.5
Dette nette représentée par:		
Immobilisations	$ 430.9	
Dépenses extraordinaires	131.7	
	$ 562.6	
Moins: Montant accumulé à même les revenus, pour amortissement de la dette et également considéré comme réserve pour la dépréciation des immobilisations et l'amortissement des dépenses extraordinaires	98.5	
	$ 464.1	
Moins: Surplus consolidé	164.7	299.4
		$ 389.9

PASSIF

Dette exigible	$ 26.1
Revenus différés	5.3
Dette consolidée nette et bons du trésor	358.5
	$ 389.9

Le bilan ci-dessus ne tient pas compte du passif éventuel suivant:

Obligations et bons — Commission Hydroélectrique de Québec	$ 159.4
Montreal Light Heat & Power Cons.	13.0
	$ 172.4
Obligations émises pour le compte des corporations scolaires par la commission municipale de Québec	59.1
Autres garanties	53.0
	$ 284.5

STATEMENT No. 7 — BALANCE SHEET OF THE CITY OF TORONTO

As at December 31, 1949
(In Million Dollars)

ASSETS

Current:		
Cash in banks and on hand	$ .9	
Accounts receivable and taxes due less reserve	7.2	
Stores on hand	.8	
Land acquired at tax sales	.4	
Revenue accrued	.8	
Deferred charges	.2	$ 10.3
Capital:		
Lands, buildings, streets services, etc.	$ 113.5	
Capital expenditures in progress	32.6	
Receivable for Debentures issued	14.7	
Local improvements	31.2	
Deferred charges	7.6	$ 199.6
Sinking fund assets		$ 2.0
Securities held for trust funds and deposited by contractors		$ .1
		$ 212.0

LIABILITIES

Current:		
Interest on debentures	$ .7	
Matured debentures unpresented	.3	
Bank loans and overdraft	3.4	
Accounts payable	3.5	
Unearned revenue	.3	
Reserve for current items	1.6	$ 9.8
Capital:		
Debentures outstanding	$ 66.0	
Acc. payable for capital exp. in progress	1.2	
Reserve for capital items	1.0	
City's equity in capital assets	132.3	$ 200.5
Reserve for sinking fund		$ 1.6
Net corpus of Trusts & contractors' deposits, etc.		$ .1
		$ 212.0

Note: Surplus for 1949 which ordinarily would have been available for reduction of taxes in the amount of $171,084.02 has been added to the provision for grant to the University of Toronto.

Contingent liabilities not included above — Bonds which have been guaranteed by the City		
Toronto Harbour Commissions	$ 15.2	
Toronto Housing Company Ltd.	.2	$ 15.4

STATEMENT No. 8 — CITY OF TORONTO

Condensed Statement of Revenue and Expense

For the Year Ended December 31, 1949
(In Million Dollars)

REVENUE

Taxable and general revenue		$ 52.8

EXPENDITURE

General expense		$ 45.2
Debt Charges:		
Interest	$ 2.4	
Serial debenture payments and sinking fund payments	8.0	
	$ 10.4	
Less: Charges met by Special Services not affecting general taxation	2.8	7.6
		$ 52.8

ETAT No 10 — CITE

FONDS GEN

REVENU ET D

De l'Exercice Termine

REVENU

Revenu ordinaire

	Montant	%
Contributions foncières (incluant une somme de $13,723,686.14 pour fins scolaires)	$34,369,812.85	45.39
Contributions personnelles:		
Taxe de vente	10,454,421.38	13.81
Taxe d'affaires	5,303,215.85	7.00
Taxe sur les appareils de téléphone	707,226.35	.93
Autres contributions personnelles	29,677.89	.04
Service d'eau:		
Taxe de l'eau	8,782,217.85	11.60
Eau au compteur	3,650,707.47	4.82
Intérêt	44,369.56	.06
Permis et privilèges (*Etat no 15*)	1,993,765.08	2.63
Amendes et frais	535,383.24	.71
Intérêt (y compris $78,793.88 d'augmentation nette durant l'année dans la valeur des placements)	831,252.52	1.10
Loyers et concessions (*Etat no 14*)	1,613,434.21	2.13
Quote-part de taxes provinciales:		
Taxe d'amusement	923,619.01	1.22
Frais de services	437,992.32	.58
Divers	95,523.95	.12
	$69,772,619.53	92.14
Apports de divers fonds municipaux	3,390,087.64	4.48
Revenu ordinaire (*Etat no 8*)	$73,162,707.17	96.62

REVENU DES EXERCICES ANTERIEURS UTILISE SELON LES DISPOSITIONS DU REGLEMENT NO. 1735 D'APRES DECISION DU COMITE EXECUTIF

Surplus approprié (*Etat no 4a*)	2,560,000.00	3.38
Total	$75,722,707.17	100.00

— CITE DE MONTREAL

NDS GENERAL

NU ET DEPENSES

Termine le 30 Avril 1950

DEPENSES ET ENGAGEMENTS

Depenses courantes	Montant		%
Intérêt	$ 5,535,229.52		7.93
Remboursement d'emprunts:			
Titres à échoir au cours de l'exercice	7,736,937.99		11.08
Gouvernement, administration générale et services publics	35,460,119.36		50.79
Enseignement	13,723,686.14		19.66
Provision pour perte possible dans la perception des taxes	1,483,959.33		2.13
Commission Métropolitaine de Montréal	93,506.17		.13
Pensions	1,329,645.20		1.90
Crédit pour dépenses contingentes (*Etats nos 9 et 10*)	515,438.18		.74
		$65,878,521.89	94.36
Engagements:			
Gouvernement, administration générale et services publics	$ 695,947.29		1.00
Crédit pour dépenses contingentes (*Etats nos 9 et 10*)	2,538.59		.00
		698,485.88	1.00
Réserves:			
Gouvernement, administration générale et services publics	$ 549,732.05		.78
Dépenses capitales (*Etat no 11*)	33,913.60		.05
Pensions	96,808.77		.14
Crédit pour dépenses contingentes (*Etats nos 9 et 10*)	1,215.37		.00
		681,669.79	.97
		$67,258,677.56	96.33
Depenses Courantes			
Excédent du revenu ordinaire sur les dépenses courantes porté au surplus disponible (*Etat no 4*)		5,904,029.61	
		$73,162,707.17	

DEPENSES A MEME LE SURPLUS SELON LES DISPOSITIONS DU REGLEMENT NO 1735 D'APRES DECISION DU COMITE EXECUTIF

Remboursement d'emprunts:			
Titres à échoir au cours d'un exercice subséquent (*Etat no 9*)	$ 640,000.00	$	
Dépenses capitales (*Etat no 11*)	1,683,773.98	$ 2,323,773.98	
Réserves:			
Dépenses capitales (*Etat no 11*)		236,226.02	
		$ 2,560,000.00	3.67
Total		$75,722,707.17	

93

%

.93

.08

.79

66

.13

.13

.90

.74

.36

.00

.00

.00

.78

.05

.14

.00

.97

.33

.67

ETAT No. 9 — CITE DE MONTREAL

Bilan Consolide

Au 30 Avril 1950

ACTIF

Espèces en caisse et en banque	$ 799,650.78
Placements et intérêt accru	21,361,737.58
Comptes à recevoir et intérêt accru moins réserves	13,333,771.86
Revenu divers accru	156,638.11
Marchandises en magasins	599,650.73
Valeurs détenues en garantie	526,780.76
Dépenses différées (dont $1,050,285 imputés au budget de 1950-51)	1,055,366.72
Travaux en cours	4,304,807.69
Total de l'Actif (1)	$ 42,138,404.23
Dépenses consolidées sur autorisations d'emprunts réduites des remboursements d'emprunts (Etat no 49)	187,543,956.44
	$229,682,360.67

(1) La Cité porte, en plus, dans ses livres des biens mobiliers et immobiliers pour un montant de $199,851,038.35 (en partie estimé) acquis en majeure partie à même les emprunts ainsi que des immeubles à vendre au montant de $4,238,212.37 dont la plus grande partie a été acquise en satisfaction des créances qui les grevaient.

PASSIF

Comptes à payer et dépenses accrues		$ 12,598,051.37
Revenu perçu d'avance		237,182.84
Fonds en fiducie		2,987,461.49
Dette obligataire (Etats nos 36 et 45)		184,724,115.29
Réserve pour dépenses autorisées et engagements		4,559,518.75
Réserves diverses		925,827.69
Total du Passif (2)		$206,032,157.43
Réserves et surplus:		
Surplus disponible (Etat No 4)	$ 6,880,743.10	
Surplus approprié à l'année 1950-51 (Etat No. 4a)	6,700,000.00	
Surplus approprié pour dépenses de conversion de la dette (Etat No 4b)	1,000.00	
	$ 13,581,743.10	
Réserve pour contribution au fonds général	9,403,409.71	
Réserve pour remboursement d'emprunts	165,050.43	
Capital (fonds d'inventaire)	500,000.00	23,650,203.24
		$229,682,360.67

(2) Le passif ne comprend pas les passifs différé et contingent mentionnés à l'état no 47.

Note: Les actifs ci-dessus no sont pas tous disponibles pour les fins générales des la Cité et le détail de ces actifs et passifs par fonds, est donné à l'état no 38.

Balancing the Unbalanced Sheet Funds

By James R. Neff, C.A.

"We have, in the following enquiry, attempted to throw some light upon subjects, from which uncertainty has hitherto deterred the wise, and obscurity the ignorant."

An Enquiry Concerning Human Understanding, by David Hume (1711-1776)

This — To Please the Editor

WHEN an elderly man visits his garden to plant a tree he knows very well that he may not live to see it bear fruit. Nevertheless, he takes care to prod the seedling into the soil. It is so, too, with the man who writes a book on an accounting subject. The infinite labour that such a work entails must be followed by almost instantaneous distribution if the author is to see his efforts appreciated. That, however, does not usually occur.

There is, however, an alternative. A paper such as this, purposely designed to invite criticism and published in an accounting periodical, is assured of immediate circulation. The presentation of an idea here may be likened to the sowing of that plain common or garden variety of hardy annual. The soil being of the best, one may expect a flower soon, provided the seed is sound.

A General Criticism

It would be nice indeed to be able to say that books and articles on accounting are on the whole excellent, if a little tardy. Unfortunately, it may be more serious than that. There may be a question whether their contents are based on a true concept of accountancy. It is even possible that they have been more than a little confusing to our students of the subject.

I repeat that this discourse is intended to be a provocative one. My purpose in setting it out is to put before you the principles of an accountancy which may not have been satisfactorily described in our reference literature. Surely if one is to be classed as an expert in any field of endeavour he should be prepared on occasion to pause — to step back a pace or two — in order to obtain a more objective or realistic viewpoint of his subject.

Many texts which purport to teach the "beginnings" of accountancy commence something like this: "A man buys merchandise, he sells merchandise, and at the conclusion of the period he has an inventory and a profit or loss for the pains he has taken." Perhaps that word "pains" is used advisedly! Later he is sure to have more pains as he delves further into the mysteries of modern methods of trading.

Thereafter, one need only ruff through the pages of such books to realize that they have been largely flavoured with commercialisms. We find that attention has usually been given not to accountancy itself, but to accountancy as it may be applied to merchandising and to a rare few kindred commercial operating projects.

It is suggested to you, the reader, that you do not accept the opinion expressed above without some personal investigation of the matter. Perhaps it may be of interest to you to find some written references to the fact that accountancy is basically a listing of assets, a listing of liabilities (where there be any), and the insertion of the resulting balancing amount. It should be made clear, too, that the familiar words "double entry bookkeeping" are in fact a loose expression, and that all accountancy must of necessity be "fund accounting" for the very good reason that there can be no other form of accounting.

The Missing Link?

The daily newspapers and radio broadcasts make regular references to such matters as "The Flower Fund", "The Poor Fund", "The Flood Relief Fund", and a multitude of other funds designated for some special purpose. Evidently, it has been assumed that the public is fully aware that the common fund is the accounting unit in such matters.

In the classified section of the City of Toronto Telephone Directory there are some 1,500 organizations listed which one may suppose with considerable reason are being operated under a typical Fund system of accounts. These are churches, hospitals, clubs, associations, and many more such friendly or non-profit organizations. It would appear that the instructions in our lessons as to how best to present the financial statements of such projects are indeed too few, if there be any at all.

In the story of man's own development upon this sorry planet it is said that somewhere in pre-history a "missing link" has escaped us. Perhaps one may conclude also, not without reason, that somewhere in the record of accounting history the significance of that important unit, the accounting fund, has been inadvertently mislaid, to the extent that it has been largely omitted from the libraries of our profession. This omission is most surprising as the fund seems to be the absolute factor, that least common denominator, in all accountancy, and, too, it is that important link which binds all balance sheets into one common form of presentation. How extraordinary that the fund has been missed when it is so evident that no balance sheet can be prepared in any manner whatsoever without giving effect in it to so many of the principles of fund accounting!

What is Accountancy?

Perhaps this important question is one which to date has not been properly answered in our text books. Can it be possible that we are not exactly sure *what* it is?

One thing is clear. Accountancy cannot be the financial operating projects which we measure with the processes of that science. Accountancy must be the measuring instrument, not the objects measured. Strangely, the various operating projects may be infinite in both number and variety, but the methods of accountancy and the forms in which the accounts are presented remain fixed and constant at all times.

Let us consider for a moment that measuring instrument which we all know as the common thermometer. The basic principle of the thermometer is the expansion and contraction of a column of mercury in a sealed glass tube from

Mr. James R. Neff is a member of the firm of Neff, Robertson and Stone in Toronto. After serving in the artillery of World War I, he entered the office of his father, the late A. C. Neff, F.C.A. and was admitted to membership in the Ontario Institute in 1928. He is now senior partner of his firm.

which the air has been withdrawn. To measure the height of the mercury in terms of degrees of heat it has been found helpful to borrow a few simple numbers from the science of numerology. In accountancy, a similar scientific measuring instrument perhaps, we find it necessary to borrow large masses of figures to record the position of wealth in accounts in terms of dollar values. If the above reasoning is sound, and it is submitted here that it must be so, then it follows that the figures we use are useful adjuncts of accountancy but are not in themselves true accountancy.

If our logic is correct then we may conclude that true accountancy is not the projects measured, not the figures used, but only the study of the forms in which the financial information may be presented, or as follows:—

(a) *The Secondary matter for attention*
The scientific listing of assets and of liabilities and the ascertaining of how best they may be arranged to appear in accounting funds.

(b) *The Primary matter for attention*
The determination of the ways and means in which the highly significant net assets or fund balancing amounts may be presented to interpret a large but indefinite number of various financial situations.

Accounting Theories — Extant?

To the best of my knowledge we have but the following few theories of accountancy which are intended to interpret the principles which are basic in our so-called balance sheets. All have developed within that short but extraordinary period in financial history, the first half of this twentieth century, in which we ourselves have been privileged to scurry.

Number one is that termed the "Proprietary Theory" which suggests that the balance sheet is prepared to disclose the net worth or proprietary interest of the owner or owners of the funds.

Next to develop, the "Entity Theory" appeared when it was established clearly in law that the limited company was indeed a separate entity from its shareholders.

Certain misgivings developed in regard to the above as both proved to be unsatisfactory under modern high pressure conditions so that lately there has been promoted a "Residual Balance Theory" or what some may care to refer to more descriptively as a "We Give Up" theory. The theory stems from the view that a proper analysis of the information in the balance sheet is impossible and that the only effective story is obtained from the movement in the Profit and Loss account. The poor balance sheet here is allowed to become simply a listing of residual balances after the "P. & L." movement has taken place. Nothing could be further from the truth, as the betting odds could be, say, 100 to 1 in favour of the balance sheet *if it be properly prepared*. However, they are easily 1 to 100 that it has not been.

Finally it has been suggested, rather as an alternative-way-out proposition, that the setting-up of the balance sheet is an art dependent more upon the skill of the one who is commissioned to prepare it than upon anything else. It might be mentioned here that when the modern idea of "What is Art?" shows such a strong tendency towards futuristic studies of colours, strange angular forms and

shadows, then such a theory, above all, gives promise of some most interesting development.

But — oh! do we not take the subject of these theories too seriously? Surely there are some among us who have no thought for such matters. To these, accountancy may be little more than a few funny facts and figures fitted furtively into a balance sheet in terms of apparently appropriate approximations and appraisals! !

The One True Concept — Missing?

It may well be that all of the foregoing theories have been grossly in error, principally because their proponents have had no clear knowledge of fund accounting or have failed to recognize its practical usefulness in balance sheet interpretations. One would think that we require no theory other than that which is already so evident as a mechanical part of accountancy itself. We need only to recognize the accounting funds and the principles which govern them and many of the obscurities we encounter are instantly made clear.

We list assets, list liabilities (if any), and insert the balancing amount. The discovery that the insertion of the balancing amount was so highly significant is probably the greatest and most outstanding invention in the entire field of accounting and finance. All honour should go to the man who thought of it! We should indeed be grateful to him.

We must regard accountancy at all times not as a subject originating in our professional reference books but as a recording process developed over the ages. Accountancy as it is now used in actual practice must have been written into the records of mankind before any of our books of learning had been drafted. If you wish to know the answer to the question "What is Accountancy?" then you must gather as many published statements as you can find and from them form your own independent opinion. In general, you may discover them to be prepared according to false principles, if there are any principles evident at all. Probably the worst offender, or rather the one which may have caused the most damage to society, is that of the trading company. Apparently we have been so blinded by its customs and traditions and its handsome surface appearance that seldom do we dare to question whether its form actually may be an atrocious one for the purposes of sound money management.

The Typical Modern Unbalanced Sheet
(Example "A" Page 206)

The examples which are appended to this article are studies of more complicated fund structures which may prove to be interesting. They are intended to illustrate what appear to be the accounting errors which are indicated in the actually published balance sheets of five large projects having in all total assets in excess of two hundred millions of dollars. The fund names have been changed and the figures lessened to suit the purposes of this paper. In addition, one or two accounting fund eccentricities have been popped in to make the study more interesting and informative.

One should notice particularly that the errors reported may be taken as typical of all such presentations. Nor is it too great a stretch of the imagination to say that the following analysis of the funds of these organizations may apply equally well to the typical business company statement.

The fact that it is suggested here that all have been published in an unbalanced condition must not be taken as a criticism of the management of these organizations. The fault lies solely with the processes of an accountancy which have largely omitted the use of that most help-

ful balanced fund principle in its balance sheets.

It is necessary for emphasis to repeat. Our Example "A" represents the level of development which seems to have been reached to-day in actual practice in regard to fund studies. If our lessons have taught us this type of accounting then it follows they may have been based upon false principles. If our lessons have not included instruction in the preparation of such statements perhaps it is time that attention be given them. It is very true, perhaps, that the easiest plan to follow would be for us all to join the "We Give Up" theorists. Soon there will be a new generation of accountants who, we can hope, will be able to deal with the matter more positively. Certain it is, however, that accountants may be leaving to their successors little of real practical worth if our Example "A" is typical of the manner in which fund accountancy is presently permitted to be malpractised.

The Published Unbalanced Funds

The unbalanced effect is noticeable at once in a typical error in our example. The provision for employees' retirement has a credit balance of $32,650.20, whereas the investments of this account amount to $39,000.00. It is clear that these figures cannot both be correct. It is a very common fault which occurs over and over and over again in such unbalanced statements that we are left to guess or to take our choice of two different amounts for the same thing.

If we treat the matter largely then we find the following condition in the accounts of our example. It is reasonable to suppose, or rather we are led to believe by the manner in which the credit balances of the funds have been listed, that the following Specific Purpose Funds should be on hand ready for immediate use in the form of bonds, stocks, or other readily available investments.

CREDITS: or balances implied to be on hand

Fire loss receipts held pending reconstruction		$ 26,800.40
Special trust deposits		10,200.00
Reserve for buildings renovations		118,420,00
Provision for public liability		15,950.40
Provision for employees' retirement		32,650.20
		$204,021.00*

* Total funds which should be available but not including any consideration for the fact that recovered depreciation should perhaps be on hand for the ultimate renewals of buildings and plant.

DEBITS: or assets actually on hand

Investments — Bonds, stocks and interest	$127,789.16	
Employees' retirement provision— Investments, (?) we presume to be bonds	39,000.00	166,789.16
		$ 37,231.84†

† Net resulting amount of unbalanced difference which it is reasonable to assume may have been spent on buildings and plant. It is noticeable, however, that some, if not all of these investments, are likely to have been pledged and are at the bank as collateral for the loan of $90,000. This in effect is a further dispersal of the assets of the above Specific Purpose Funds. The borrowed money, too, may have been spent on buildings and plant and, therefore, is not immediately recoverable.

The Management's Problem

There is some semblance of truth in the comments usually made in the addresses of the presidents of such organizations that the assets total $2,152,-305.06, that the liabilities are only $163,003.26, and that all other balances shown represent the equity in the operation of the owners of the project. One could not, however, successfully

manage the finances of the enterprise by such guesswork generalities. There must be more meticulous attention given to the nature of and the position of each of the individual funds involved in the matter.

It is at all times vital that the management should know the answers to the following questions:

How much money is available to be spent?

How much has been set aside for special purposes?

How much money has already been spent and is presently locked up in buildings and plant to the extent that it is recoverable only under depreciation methods or outright sale?

How much is locked up in land held for use which cannot be recovered until the present project is terminated?

How much is trust money on hand which is not owned by the organization?

It is apparent that all of these most urgent questions may be answered fully if the appropriate funds are set up and regularly balanced on the occasions when management information is required. Admittedly the boss always has plenty to do but one would think that he should "keep his weather eye open for breakers ahead" if he has inadvertently spent the cash recovered by depreciation write-offs, for purposes other than renewing his plant.

Few indeed are the directors of such organizations perhaps who realize that the excessively solvent condition of the company's working assets may be attributed solely to the fact that their original investment in buildings and plant has been almost wholly written off and so is on hand in bonds and stocks. Attention to a study of the balanced fund principle in their statements would show the directors clearly that bonds and stocks on hand are not necessarily an indication that dividends should be considered. The source of the securities showing in the current fund assets must at all times be positively known. They may not be accumulated profits but a signal that buildings and plant have not been kept in a proper state of repair.

A Statement of Balanced Funds

(*Example "B" Page 207*)

In undertaking to balance the funds of a published unbalanced sheet it is at once noticeable that there is seldom sufficient information available so that we may make our analysis accurate. Certain reasonable assumptions must on occasion be made. Our plan of attack must be that of setting up the grouping of the accounts which we know we must establish. The following sections, therefore, are the ones which may be assumed to be the funds which are positively required. In all accountancy studies these headings seem to be so firmly fixed that they may be considered from the practical viewpoint as an invariable standard.

Liabilities

Current funds

Specific purpose funds

Building and plant, depreciable funds

Land funds

Funds held in trust for others

The first step is to select what appear to be the liabilities and the funds in the statement and place each under its appropriate credit heading. It will then be necessary to allot all of the assets shown into the appropriate sections as debits. All sections are now noticeably out of balance so we can proceed to balance our funds with the necessary correcting journal entries.

In the attached example the fund adjustments have been shown rather as a work sheet in which all the journal entries may be followed. The finished statement would not of course require

such full explanations to be on it. For the purpose of our convenience all of the balances appearing in our example "A" have been carried to example "B" and have been marked in it with an asterisk (*) in lieu of a check mark. Thereafter, the ten balancing entries are numbered to be self-explanatory and may be easily followed.

The apparent cause of such groups of funds being shown in an unbalanced condition always seems to be the same. Double entries have been made when quadruple entries were required. Descriptions of the quadruple entry principle perhaps are practically non-existent in our present literature purporting to have been written by the best of our accounting authorities. One is led to wonder how such an extraordinary omission could have occurred.

All Twelve Entries for Depreciation

It is important that the quadruple entry principle be reported upon here at some length but since examples are necessary it may better suit our purposes to confine the remarks to discussions of the depreciation entries required for our attached Example "B". It shall be our aim then to kill with the proverbial one stone those two very tough birds indeed — the quadruple entry and the depreciation problem.

As an illustration let us undertake to discuss and to prepare the entries to record, say, an amount of $10,000 to be written off as an annual charge for the depreciation of the plant. The first entry is clearcut as it occurs within the boundaries of one fund only as follows:

STEP NO. 1 — A DOUBLE ENTRY

Surplus fund invested in plant	$10,000	
To plant asset account		$10,000
To reduce plant by the annual depreciation write-off.		

Our next entry requires a little preliminary explanation as it is not readily apparent in normal bookkeeping methods. It seems that the revenue of the operation usually includes an appropriate provision for the return to the current position of the operation the amount of depreciation written off the plant. No actual entry would have been made of course, but the effect would be —

STEP NO 2 — A DOUBLE ENTRY

Current funds — cash	$10,000	
To current surplus (Revenue account)		$10,000

To record the fact that a part of the amount of each individual sale is in fact a return of depreciation charged for in the selling price. Please note particularly that the amount so recovered is in no sense profit but simply a recovery of the original money invested in plant.

We must now make the entry to charge the Profit and Loss account with the annual amount of plant depreciation. It is clear that one of the theoretical purposes of recovering the depreciation is to keep the returned cash on hand for the purpose of replacing the plant when

it becomes necessary to do so. We must, therefore, transfer the amount to a Specific Purpose Fund. Since the depreciation recovered through sales is already on hand in the current fund bank account, we must, of course, transfer the cash too, or our Current Funds and our Specific Purpose Funds also will be out of balance.

STEP NO. 3 — A QUADRUPLE ENTRY

Current surplus fund (Revenue account)	$10,000	
To specific purpose depreciation recovered fund		$10,000
Specific purpose funds, cash or bonds	$10,000	
To current funds, cash or bonds		$10,000

We have now made two double entries and a quadruple entry, and have kept our accounts at all times in proper position and our funds are in balance. We are not yet finished, however. Upon analysis of the situation we are able to determine that some of the cash recovered by the current period depreciation process was needed to be spent on further investments in plant. Since this will be a transfer of wealth from one fund group to another, which may have actually occurred during the year, then the equivalent fund balances are required to be corrected by a final adjusting entry.

STEP NO. 4 — A QUADRUPLE ENTRY

Plant fund asset	$ 2,000	
To specific purpose funds cash		$ 2,000
Specific purpose depreciation recovered fund	$ 2,000	
To plant depreciation recovered and re-invested fund		$ 2,000

The accounting principles described in the above twelve entries appear to be theoretically correct. In modern strictly commercial accounting all of the above processes actually occur, but normally are disregarded or their effect is unnoticed in the accounts. The cash appearing in the current asset position and which is clearly required to be on hand to replace the eventually to be worn-out plant is normally and perhaps unknowingly spent by the management for other purposes. It is submitted, therefore, that what appears to be a fault in the judgment of the management may be actually the fault of the type of accounting taught by our present accounting teachers. If the full fund principles of accounting had been used, the management would have known its true position clearly, and its action would have then been taken at least with the knowledge of the facts.

Balancing With the Bank Balances

One of the most interesting difficulties in handling a set of accounts, where two, three, or perhaps ten or more funds are used to handle the affairs of a single operating project, is what to do about the bank balances. There are many who believe that in order to be correct, a separate bank account is required for each individual fund. Such is not the case, however.

If we have, say, ten funds and ten bank accounts, just imagine the troubles which will occur when one cheque is received which is applicable to two or

more funds and so to two or more bank accounts. The cheque must be deposited in one bank account, and the necessary bank transfer of part of the amount must then be made to a second and perhaps a third bank account. Admittedly, such practice is impossibly difficult, so we may revert here, with a clear conscience, to the "We Give Up ! ! !" theory.

A bank account is not like an investment. It is more fluid than a current asset. It is realized wealth in a state of temporary flux about to be moulded into some new form of wealth. It is for this reason that the deposits of all funds and cheques applicable to all funds may quite properly go through one general bank account or, when required, to a general current account and a general savings account.

Admittedly, having only one general bank account will mean that all of the funds will seem to be out of balance individually when the trial balance is taken off, but that is as it should be. The only time that the funds need to be balanced is when information is required by the management or the annual balance sheet is prepared. At such times investments such as bonds, stocks and mortgages may have to be re-allotted from one fund to another. It would be quite difficult indeed to balance each group of funds if it were not for the exceptionally fluid general bank account. The necessary part of the general bank account needed to balance each fund or group of funds is simply inserted in its appropriate position in the assets of each specific fund, and it will then be found that the amount left over will be the sum required to balance the current fund bank position.

In the above discussion it has been assumed that all of the funds are owned by the one operating project. If such a project should hold moneys in absolute trust for others, then there should be opened a special trust bank account. Normally the cash of one or more such trusts may be deposited in a single bank account provided no account is subject to great activity. If such be the case then of course an individual bank account is warranted for each of the active trusts. It is evident that the circumstances regarding the setting up the accounts of each individual trust must be carefully considered.

The Puzzling Question?

(*See Examples "C" & "D", Pages 208, 209*)

The management of the normal trading company limited is fully aware that its good hard cash capital has been locked up in fixed assets. Then, too, it is common knowledge that depreciation must be charged off as an expense of such an operation if the business is to be continued as a healthy one. Further, the selling price of merchandise normally includes a calculated provision for the return to the company of all depreciation written off.

The puzzling question is therefore clearly defined. *In the modern merchandiser's balance sheet, where did the recovered depreciation go to?* There is nothing to indicate what has happened to this very important amount of capital which has been caused to circulate in the business due to the customary processes of depreciation methods.

Again we must openly question whether the balance sheet form here is theoretically a true one. Surely it is time for us to acquire a new pair of gold-rimmed "Skepticals" lest our eyes become fogged by old established customs and traditions rather than sound reason.

Example "C" is a typical modern trading company's balance sheet. To

be brief, let us say that it may be confused in the following particulars —

(a) Why are capital and surplus not divided into spending money and money which has already been spent?

(b) Why is the source of the money spent on fixed assets not indicated whether it be initial capital, earned surplus, or recovered depreciation which has been quite properly used to replace the worn-out building and plant?

(c) How much of the recovered depreciation has been used to refurbish the worn-out assets, and is any of it left for further repairs and replacements?

(d) Has any of the recovered depreciation been used for purposes other than that of renewing or replacing fixed assets?

Example "D" is a frank attempt to answer all of the above questions by a simple adaptation of the mechanical principles of fund accounting to the same balance sheet. It is submitted that the numbers (1), (2), (3), (4), (5) which have been inserted as cross references are sufficiently clear to properly describe the true position of the fixed assets and their recovered depreciation amounts. The true answer to our question could be that the commercial balance sheet is badly in need of repair.

Concluding Comment

This article on the subject of balancing the funds may be needed to call attention to a general difficulty or serious defect to be found in a great many, perhaps all, published balance sheets. The unbalanced condition in such statements may have been permitted because it has not been noticed.

Heretofore we have been satisfied with the balance sheet in which the total of the assets equals the total of the liabilities and capital. It is clear that such a study is not sufficiently penetrating to interpret the true money facts. The full balanced effect must have been accomplished in each individual fund and/or each group of funds according to "The Basic Principles of Fund Accounting" (See *The Canadian Chartered Accountant*, July 1950). The balanced sheet must balance both internally and externally if it is to be an intelligible one.

It would be a too serious charge that it is practically impossible to obtain accurate and full information from any and all modern published balance sheets. You may, however, find it interesting to gather together for your own information a collection of "odd-lot" types of published balance sheets and deliberately test them for their efficiency. May I suggest that you will be fully convinced that they need attention when you try to re-allot the items in such statements in an effort to interpret the balancing principles which it has been my purpose to describe in this paper. You will be due for many rude shocks and surprises as you may be discovering for yourself accountancy as it is rather than as it is written into our lesson books.

May I suggest too, in closing, that you refer once again to the first few opening paragraphs of this discussion. The soil in which this seed of accounting thought is planted is undoubtedly a fertile one, but we must wait and see whether the full concept of fund accountancy will flower. It may be that its sprouts are already showing well above the ground.

EXAMPLE "A" — A TYPICAL PUBLISHED UNBALANCED SHEET

(In which the accounting funds are most difficult to discover)

ASSETS

Cash and bank balances		$ 2,500.64
Investments — Bonds and stocks	$124,894.66	
Interest due and accrued	2,894.50	127,789.16
Accounts receivable		129,741.52
Inventories — Merchandise	$ 8,962.00	
Building construction supplies	5,682.40	14,644.40
Employees retirement provision— investments (?)	$ 38,000.00	
Interest due and accrued	1,000.00	39,000.00
Total Working Assets		$ 313,675.72
Land, buildings and plant, at cost		1,837,608.93
Deferred charges — prepaid expenses		1,020.41
Total Assets		$2,152,305.06

LIABILITIES

Bank loan		$ 90,000.00
Accounts payable		33,056.14
Fire loss receipts held pending reconstruction		26,800.40
Prepaid income		2,946.72
Special trust deposits		10,200.00
Total liabilities		$ 163,003.26
Operating Reserves		
For building renovations	$118,420.00	
For contingencies	10,000.00	
For bad debts	7,061.84	135,481.84
Other Reserves		
Provision for public liability	$ 15,950.40	
Provision for foreign exchange	5,300.00	
Depreciation reserve	426,780.59	
Provision for employees' retirement	32,650.20	480,681.19
Capital		1,000,000.00
Surplus		373,138.77
		$2,152,305.06

EXAMPLE "B" — A STATEMENT C

(In which the accounting funds a

SECONDARY AREA OF ATTENTION — THE DEBITS

CURRENT FUNDS — ASSETS			
Cash and bank balances		*$ 2,500.64	
Less: Portion owned by specific funds		(1) 1,393.11	$ 1,107.53
Investments — Bonds and stocks, at cost			
Not allocated, held generally		*$ 124,894.66	
Allocated to employees' retirement fund		* 38,000.00	
Interest due and accrued		* 3,894.50	
Less: Revised allocation		$ 166,789.16	
To specific funds	(2)$154,775.86		
To trust funds	(3) 10,200.00	164,975.86	1,813.30
Accounts receivable		*$ 129,741.52	
Less: Provision for bad debts		* 7,061.84	122,679.68
Inventory of saleable merchandise			* 8,962.00
Deferred charges — prepaid expenses			* 1,020.41
Total Assets of Current Funds			$ 135,582.92
SPECIFIC PURPOSE FUND — ASSETS			
Investments — allotted from general fund			
Bonds and stocks, at cost	$150,881.36		
Interest due and accrued	3,894.50	(2)$ 154,775.86	
Portion of general bank account (to balance)		(1) 1,393.11	156,168.97
BUILDINGS AND PLANT FUND — (Deferred Expenditures)			
Buildings and plant, at cost		*$1,837,608.93	
Less: Transfer to land fund	(4)$150,000.00		
Depreciation written-off	(5) 426,780.59	576,780.59	
		$1,260,828.34	
Less: Estimate of fire loss (contra)		(6) 30,000.00	
		$1,230,828.34	
Inventory of building construction supplies		* 5,682.40	1,236,510.74
LAND FUND			
Head office property land, estimated cost			(4) 150,000.00
Total Debits			$1,678,262.63
FUNDS HELD IN TRUST — ASSETS			
Investments allotted from current funds, Bonds			(3)$ 10,200.00

LIA
Ban
Acc
Prep
CUI
Con
Le
Con
Curr
Le
A
SPE
Publ
Emp
Dep
Le
Buil
Le
Fire
BUI
Cont
Le
Depr
Buil
Surp
Le
LAN
Porti
FUN
Speci

NT OF BALANCED FUNDS

unds are clearly identified)

PRIMARY AREA OF ATTENTION — THE CREDITS

LIABILITIES				
Bank loan			*$ 90,000.00	
Accounts payable			* 33,056.14	
Prepaid income			* 2,946.72	
Total Liabilities				$ 126,002.86
CURRENT FUNDS — (Net available for General Spending Money)				
Contingent fund — general		*$ 10,000.00		
Less: Transfer to current surplus		(7) 6,000.00	$ 4,000.00	
Contingent Fund — Foreign Exchange			* 5,300.00	
Current surplus fund		*$373,138.77		
Less: Transfer to plant fund		(8)378,858.71		
Current Deficit		$ (5,719.94)		
Add: Transfer from contingent fund		(7) 6,000.00	280.06	9,580.06
Total Liabilities and Current Funds				$ 135,582.92
SPECIFIC PURPOSE FUNDS — (Available Unexpended Balances)				
Public liability fund			*$ 15,950.40	
Employees' retirement funds			* 32,650.20	
Depreciation recovered fund		*$426,780.59		
Less: Re-invested in plant		(9)398,560.42	28,220.17	
Building renovation fund		*$118,420.00		
Less: Renovations accomplished		(10) 65,872.20	52,547.80	
Fire loss reconstruction fund			* 26,800.40	156,168.97
BUILDINGS AND PLANT FUND — (Recoverable by Depreciation)				
Contributed capital fund		*$1,000,000.00		
Less: To land	(4)$150,000.00			
Depreciation	(5) 426,780.59	576,780.59	$ 423,219.41	
Depreciation recovered and re-invested fund			(9) 398,560.42	
Building renovations accomplished fund			(10) 65,872.20	
Surplus fund invested in plant		(8)$378,858.71		
Less: Est. of fire loss (contra)		(6) 30,000.00	348,858.71	1,236,510.74
LAND FUND — (A Permanent Investment)				
Portion of contributed capital				(4) 150,000.00
Total Credits				$1,678,262.63
FUNDS HELD IN TRUST FOR OTHERS — (Not Owned by the Organization)				
Special trust deposits fund				*$ 10,200.00

07

.86

.06

92

97

74

00

63

00

EXAMPLE "D" — TOMORROW'S TRA

Authorized Capital

2,000 Common shares of $100.00 each $200,000.00

Issued Capital

1,500 Common shares of $100.00 each 150,000.00

Statement of Balance

December 31, 20

SECONDARY AREA OF ATTENTION — THE DEBITS

CURRENT FUNDS

Cash and bank balances		$ 5,000.00
Bonds — Hypothecated as collateral for bank loan		10,000.00
Accounts receivable — less provision for doubtful debts		22,000.00
Inventory of merchandise		34,000.00

Note: $26,000.00 of depreciation recovered has been used to purchase additional inventories and to finance an increased amount of receivables.

Total Current Fund Assets		$ 71,000.00

SPECIFIC PURPOSE FUNDS

Bonds, unpledged, at cost	$ 4,000.00	
Borrowed by current funds (contra)	(5) 26,000.00	30,000.00

DEPRECIABLE EXPENDITURE FUNDS

	Initial Capital Expended	*Earned Surplus Expended*	*Recovered Depreciation Re-Expended*	*Total Depreciation Recovered*	
Buildings	$ 89,000.00	$ 8,000.00	$ 45,000.00	$ 66,000.00	
Plant	26,000.00	6,000.00	15,000.00	21,000.00	
Furniture	2,000.00	4,000.00		2,000.00	
Automobiles	3,000.00			1,000.00	
	$120,000.00	$ 18,000.00	$ 60,000.00	$ 90,000.00	108,000.00
	(1)	(2)	(3)	(4)	

LAND FUND

Land at cost		15,000.00
Total Debits — indicating the location of the wealth		$224,000.00

S TRADING COMPANY LIMITED

Balanced Funds

31, 2000

Allotment of Issued Capital

To Current Fund	$ 35,000.00
To Depreciable Expenditure Fund	100,000.00
To Land Fund	15,000.00
	$150,000.00

PRIMARY AREA OF ATTENTION — THE CREDITS

CURRENT FUNDS — (Available Spending Money)				
Liabilities — Bank loan, secured as per contra			$ 12,000.00	
— Accounts payable			4,000.00	
— Mortgage interest payable			1,000.00	
Total Current Fund Liabilities				$ 17,000.00
Initial capital fund — allotted to current position			$ 35,000.00	
Earned surplus from operations fund	$ 11,000.00			
Less: Re-expended in buildings and plant	60,000.00	(3)		
Earned Surplus Fund (Deficit)			(7,000.00)	
			$ 28,000.00	
Borrowed from depreciation recovered fund (contra)		(5)	26,000.00	54,000.00
				$ 71,000.00
SPECIFIC PURPOSE FUNDS (Money which is "earmarked")				
Depreciation recovered fund		(4)	$ 90,000.00	
Less: Re-expended in buildings and plant		(3)	60,000.00	
Net recovered depreciation unexpended				30,000.00
DEPRECIABLE EXPENDITURE FUNDS — (Money Spent but Recoverable)				
Initial capital fund		(1)	$100,000.00	
Earned surplus expended fund		(2)	18,000.00	
Depreciation recovered and re-expended fund		(3)	60,000.00	
			$178,000.00	
Less: Depreciation recovered		(4)	90,000.00	
Net Depreciable Expenditure Funds			$ 88,000.00	
Liabilities				
Building mortgage payable		(1)	20,000.00	108,000.00
LAND FUND — (Money not recoverable except by Sale)				
Initial capital, invested in land				15,000.00
Total Credits — indicating the sources of the wealth				$224,000.00

$ 35,000.00
100,000.00
15,000.00
$150,000.00

$ 17,000.00

54,000.00
71,000.00

30,000.00

08,000.00

15,000.00
24,000.00

EXAMPLE "C" — TODAY'S TRADING COMPANY LIMITED

BALANCE SHEET

December 31, 1950

ASSETS

Cash and bank balances			$ 5,000.00
Bonds			14,000.00
Accounts receivable — less provision for doubtful debts			22,000.00
Inventory of merchandise			34,000.00
Total Current Assets			$ 75,000.00
	Asset	Depreciation	
Buildings	$142,000.00	$ 66,000.00	
Plant	47,000.00	21,000.00	
Furniture	6,000.00	2,000.00	
Automobiles	3,000.00	1,000.00	
	$198,000.00	$ 90,000.00	108,000.00
Land			15,000.00
			$198,000.00

LIABILITIES

Bank loan		$ 12,000.00
Accounts payable		4,000.00
Mortgage interest payable		1,000.00
Total Current Liabilities		$ 17,000.00
Building mortgage payable		20,000.00
Capital—		
Authorized 2,000 shares of $100.00 each	$200,000.00	
Issued 1,500 shares of $100.00 each	$150,000.00	
Earned surplus	11,000.00	161,000.00
		$198,000.00

A Recent Book

Corporate Treasurer's and Controller's Handbook, edited by Lillian Doris; published by Prentice-Hall, Inc., New York; pp. 1277; price $12.50

The present-day treasurer and controller must carry on a constant search for improved techniques, not only to increase the effectiveness of his work, but also to make a greater contribution to the administrative effort in his company.

There have been many challenging articles and studies dealing with the controller's problems appearing in the publications of American associations, institutes, and societies, and their Canadian counterparts. This Handbook is a successful attempt to bring under one cover many of the accepted concepts and practices which have been adopted in American corporations. It presents a well coordinated and comprehensive picture of the administrative functions generally allocated to the treasurer and controller. As the editor states, the scope of the book was determined by a detailed study of the actual responsibilities of treasurers and controllers in many varied types of industry.

Subject matter is well developed in separate chapters, which, for the most part, have been written by an author whose business affiliation is indicated. The group of authors is drawn from well known and established corporations as well as from public accounting firms and professors of business administration.

Particularly interesting are the chapters on financial planning, which deal with forecasting and their expression in the complimentary budgets, and on development of methods and procedures which will achieve administrative savings. Effective chapters on tax follow-up and control, retention and destruction of documents, adequate insurance protection, group insurance, and pension planning are included also.

The editor deserves credit for the general set-up, and for the large legible type used in this publication. Cross references between chapters are numerous, and are useful in eliminating duplication of material.

This handbook should prove useful, not only to serve controllers with a means of testing their own current practices, but also to executives and those engaged in the field of business administration who are interested in the further development of the corporate organization along functional lines.

M. S. SUTHERLAND, C.A.
Hamilton, Ontario

Professional Notes

ALBERTA

Calgary Chartered Accountants Club

On February 20, 1951 the Calgary Chartered Accountants Club sponsored a banquet in the Palliser Hotel at which Mr. V. W. T. Scully, C.M.G., F.C.A., Deputy Minister of National Revenue, was guest speaker. Mr. Scully spoke on the administration of the *Income Tax Act* with special reference to the taxation of the farming and oil industries. He was introduced by Mr. K. J. Morrison, O.B.E., F.C.A., president of the D.A.C.A., and thanked by Mr. J. L. Kergan, C.A. Mr. J. G. Simonton, C.A., president of the club, presided. Special guests of honour at the dinner included members of the Calgary Bar

Association and of the Petroleum Accountants Society of Western Canada.

NOVA SCOTIA

Mr. G. Wallace Dickson, C.A. announces the admission to partnership of Mr. Hazen H. Veno, C.A. The partnership will practise the profession under the firm name of G. Wallace Dickson - Hazen H. Veno, Chartered Accountants, with offices at 149 Hollis St., Halifax, N.S.

* * *

Barrow, Nicoll & MacIntosh, Chartered Accountants, Murray Bldg., Halifax, announce the admission to partnership of Messrs. Ralph M. Nickerson, C.A. and John R. Moore, C.A.

ONTARIO

Ottawa Chartered Accountants Club

The monthly luncheon meeting of the Chartered Accountants Club of Ottawa was held in the Quebec Suite of the Chateau Laurier, on Wednesday, February 21. Mr. L. J. Mills, C.A., director of financial services, Post Office Department, delivered a short address in which he outlined the extremely varied nature of the Department's activities and described some of the financial and accounting procedures which had been developed to handle the huge volume of transactions. He was introduced by Mr. N. W. Cleary, who presided over the meeting, and thanked by Mr. G. F. Wevill.

* * *

Fisher, Gordon & Co., Chartered Accountants, Temple Bldg., Toronto, announce the admission to partnership of Messrs. L. Soberman, C.A., R. Fisher, C.A., H. A. Nisker, C.A. and A. S. Takimoto, B.A., C.A.

Peters, Brown & Good, Chartered Accountants, 159 Bay St., Toronto, announce the admission to partnership of Messrs. Delmer E. Taylor, C.A. and C. Glenn Garden, C.A.

* * *

Newman & Newman, Chartered Accountants, announce the removal of their offices to 4 Albert St., Toronto.

QUEBEC

C. N. Knowles & Co., Chartered Accountants, Bank of Nova Scotia Bldg., Montreal, announce the admission to partnership of Mr. Raymond L. Hebert, C.A.

* * *

Messrs. Manuel Sachs, C.A. and Gilbert Mogil, C.A. announce the formation of a partnership under the firm name of Sachs, Mogil & Co., Chartered Accountants, with offices at Ste. 603, 1449 St. Alexander St., Montreal.

* * *

Sirois, Caron, Renaud, Corriveau & Co., Chartered Accountants, announce the opening of an office at 360 St. Dominique St., Jonquiere, under the direction of Mr. Robert Racine, C.A.

SASKATCHEWAN

Saskatoon

Chartered Accountants Association

The regular monthly meeting of the Saskatoon Chartered Accountants Association was held on Friday, February 23, The president, Mr. G. E. M. Harris, C.A. introduced the successful candidates at the last final examination. A discussion took place on preparations for the annual meeting of the Saskatchewan Institute to be held in Saskatoon in the latter part of June.

News of Our Members

Mr. K. LeM. Carter, C.A. (Ont.), a partner in McDonald, Currie & Co., Chartered Accountants, has been elected chairman of the Board of Governors of the Canadian Tax Foundation.

* * *

Mr. Malcolm Sutherland, C.A. (Ont.) has been appointed secretary-treasurer of Burlington Steel Co., Hamilton.

Mr. Garry F. L. Gardner, formerly a member of the Ontario Institute, and now a certified public accountant, is practising his profession in Los Angeles and is a member of the Editorial Board of *El Toro* published by the Los Angeles Chapter of the National Association of Cost Accountants.

The Students' Department

J. E. Smyth, C.A., Editor

NOTES AND COMMENTS

WE HAVE often thought that preparing adjusting entries was one of the more rewarding things an accountant (or, perhaps, bookkeeper) could do. All year long, hard work is done simply to record the data. But the data so compiled are not nearly meaningful. Then along comes the accountant and with a few deft journal entries *makes* them meaningful. It reminds us of our barber who spends 95% of his time at straight cutting, backing and filling, relieving us of six or seven weeks' growth of hair. Then having to all intents and purposes done his job, he reaches a final time for the comb and scissors and with a few miscellaneous snips sends us forth irresistibly beautiful.

* * *

While on the subject, one of the things we think should be emphasized more frequently about adjusting entries is that they arise from the necessity for measuring profits *over relatively short periods of time.* Compared with the whole life of a business, a year is likely to be just such a "relatively short period". During a business year a good many things sort themselves out and do not require adjustment by the end of the year: most of the costs entered as expenses when incurred have in fact become expenses. Nevertheless some of them have not, and if we are going to keep our accounting for one year separate from the next, something has to be done.

The view is sometimes expressed that if we had only to measure income over a period equal to the life of the business, we should have no adjusting entries. (We should probably have no accountants either.) This view is a convenient means of explaining the problem but it is a theoretical one. Since the fixed assets of a business have varying lengths of life, we assume the "life of the business" would be the same as the life of the shortest-lived piece of equipment vital to the continued operations of the concern. Then all the other fixed assets and inventories would have to be sold for what could be realized, accounts receivable would have to be collected and liabilities paid. Income measured over the life of the business would not require any adjusting entries for its calculation but it would certainly contain a large element of capital gain or loss resulting from liquidation.

Perhaps we have not the right concept of the "length of life of a business". But in these days of limited companies we do not quite see what determines the life of most businesses unless it be bankruptcy or, possibly, government order. Then, in that event, waiting until the end of the business' life to measure income would probably precipitate the very thing which is to happen before an accounting is to be made.

* * *

Another thing about adjusting entries which needs to be emphasized is that

their object is *the measurement of income*. Not so very long ago adjusting entries were represented as rushing heroically to the rescue of some poor accounts suffering from civil war. Some part of the balances in these accounts had become expenses, some part had the socially superior status of an asset, and the two elements simply could not get along together any longer. Or to change the metaphor, the accountant was supposed to come along like a psychiatrist and psychoanalyze the poor accounts for a split personality! But this approach — often called separating the "nominal" from the "real" — has gone by the boards and a good thing too. Now we realize that we had been mistaking the form for the substance of the problem. All along the real point to the adjusting entries has been to assign revenue and expenses to their relevant accounting period so that we could measure income.

CORRESPONDENCE

Calgary, Alta.

Sir: A little matter re examination technique has been bothering me for some time. Here is my problem:

Where a question calls for a finished statement, e.g., a statement of Source and Application of Funds, Consolidated Balance Sheet, Statement of Income and Expenditure, etc., is it necessary, in order to attain full marks for these questions, to prepare working papers showing how the figures used in the final statement are arrived at? I realize that in practice, informative working papers are not only useful, but necessary, but examination problems must of necessity be written under very different circumstances from those I have usually encountered in the business world. My point is, that often by the use of marginal notes attached to the original data given, one is able to prepare the finished statements directly without the need of the working sheet.

To be a little more specific, I have found, for instance, the methods of preparing the Source and Application of Funds Statements illustrated in most text books to be very time-consuming and wholly unnecessary; also the methods of preparing Consolidated Profit and Loss Statements and Consolidated Balance Sheets, while fine for grasping the theory of the subject, are usually impracticable in the examination room.

If it be admitted that these working papers can be dispensed with under examination conditions, then what does the reader do when confronted with the problem "Prepare Consolidated Balance Sheet (show consolidated working papers and consolidated journal entries)"?

W. M. Karney

Editor's reply: We have never marked nor set any of the uniform examinations and are not in a position to offer an "official" opinion on the matters raised. Nevertheless we have had some experience with other accounting examinations and submit the comments which follow for the consideration of readers.

We quite agree that any technique which reduces the mere recopying of data already given in a problem is a good one to the extent that it releases time for the working of the problem itself. Occasionally, however, some marks are available simply for reorganizing the data given in the problem as an approach to the solution required. What is more important, however, is that the supporting details for figures given in the solution should be available to the examiner. Many accounting problems are of such complexity that the examiner can give no credit for an incorrect figure unless he has the means at hand to determine that it is incorrect merely for arithmetic reasons. If one were to use the examination paper itself as a basis for answering certain questions, we would therefore urge that he submit the examination paper along with his examination book. Most examiners would look askance at any solution which contained only the final figures — especially if they were correct figures — and no explanation as to where they came from.

With reference to the question which asks for a consolidated balance sheet, showing consolidated working papers and journal entries, our opinion is that the working papers and journal entries asked for would often be the most important part of the solution. We suspect that in many cases correct working papers, even though the student did not have time for the balance sheet itself, would yield a considerable proportion of the total marks.

SOLUTION TO LAST MONTH'S PUZZLE

The trains meet at one place along the route and at that time are therefore an equal distance from Toronto. *Editor's note*: As a consolation to the occasional reader who did not get this puzzle, your editor recalls only too clearly that a chartered accountant tried it on him recently with most humiliating results.

PUZZLE

A man wants to have five rows of four trees each in his back yard. However, he can only afford to purchase ten trees. How can he do it? (The trees need not be equal distances apart.)

(Contributed by K. C. Buckingham, C.A., Kingston, Ont.)

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants and reflect of course the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM 1

Intermediate Examination, October 1950

Accounting I, Question 3, (15 marks)

In an endeavour to replace their bookkeeper who died on 15 Jan 1949 the D Co. Ltd., a clothing manufacturer, has had, during the course of the year, four different bookkeepers, all of whom were discharged for lack of experience and for careless work.

The account for Sewing Machines, appearing in the general ledger, was a typical example of the carelessness and inefficiency.

SEWING MACHINES

1949			Dr.	Cr.	Balance
1	January	Balance forward	$15,000		Dr. $15,000
1	April	Cash—Machine No. 5	1,750		
1	June	Insurance Co. Machine No. 3		$1,500	
31	July	Cash—Machine No. 6	3,450		Dr. 18,700

An analysis of the account discloses that the opening balance of the account is represented by the following machines:

Machine No. 1—$3,500	Machine No. 3—$3,475
Machine No. 2— 3,525	Machine No. 4— 4,500

The company follows the practice of calculating depreciation on a straight line basis at 10% per annum on the balance in the asset account at the close of each year; no depreciation is provided for the current year on assets retired or disposed of. No entry has been made in the account "Reserve for Depreciation on Sewing Machines" in 1949 and the balance in this account is Cr. $11,800.

Upon analysis of the 1949 transactions the following facts are revealed:

(a) Machine No. 1 was discarded on 15 Jan 1949. This machine was fully depreciated. All the parts which could be used in repairing other machines were removed and the balance thereof sold as scrap for $100 which was credited to Repairs account.

(b) Machine No. 5 was purchased on 1 Apr 1949 at a cost of $3,500, payable 50% in cash and 50% was covered by an interest-bearing note maturing in one year. Cash was paid and the note issued. Installation costs of $300 were paid and charged to Repairs account.

(c) Machine No. 3 was totally destroyed by fire on 30 Apr 1949. Accumulated depreciation on this machine amounted to $2,780 as at 1 Jan 1949. Recovery on the insurance in the amount of $1,500 was received on 1 June 1949 and credited to Sewing Machines account.

(d) Machine No. 6 was purchased for $4,000 on 31 July 1949. In partial payment thereof machine No. 2 was turned in with a trade-in allowance of $850. Cash was paid for the balance and installation charges totalled $300 which were paid. The net book value of machine No. 2 as at 1 Jan 1949 amounted to $705.

(e) In August 1949 the old wooden base of machine No. 4 was replaced by a new concrete base and new attachments were added. As a result there was a speed up in production to almost double the former capacity. The cost, totalling $700, was paid on 21 Aug 1949 and charged to Repairs account.

(f) In November 1949 it was decided that the purchase of an additional machine was necessary. Complete rearrangement of the other machines was planned with additional alterations to the layout to provide for better lighting facilities and more agreeable working conditions. The total cost of this rearrangement was $1,500 of which $300 covered new lighting fixtures and $250 covered installation cost of the new machine. The $1,500 was paid on 18 Nov 1949 and charged to Alterations account. The new machine, costing $4,700, was received on 14 Nov 1949 but was not paid for until 10 Jan 1950 at which time the purchase was recorded.

Required:

Prepare the journal entries, complete with narratives, to adjust the Sewing Machines account and the Reserve for Depreciation on Sewing Machines account as at 31 Dec 1949.

A SOLUTION

D CO. LTD. JOURNAL ENTRIES

	1949		Dr.	Cr.
(a)	Dec 31	Reserve for depreciation	$3,500	
		Repairs	100	
		Profit on disposal of equipment		$ 100
		Sewing Machines		3,500
		To transfer revenue from sale of scrapped machine to proper account correcting entry of 15 Jan 1949, and to adjust asset account and reserve for depreciation.		

(b)	Dec 31	Sewing machines	2,050	
		Notes payable		1,750
		Repairs		300
		To set up note given in part payment of No. 5 machine and to transfer cost of installation from Repair account.		

(c)	Dec 31	Reserve for depreciation	2,780	
		Fire loss account		2,780
		To transfer accrued depreciation on No. 3 to fire loss account.		
	Dec 31	Fire loss account	1,975	
		Sewing machines		1,975
		To transfer balance of cost of No. 3 to fire loss.		
(d)	Dec 31	Reserve for depreciation	2,820	
		Sewing machines		2,675
		Profit on disposal of equipment		145
		To transfer accrued depreciation on No. 2 traded and to set up profit on disposal.		
(e)	Dec 31	Sewing machines	700	
		Repairs		700
		To transfer cost of rebuilding No. 4 to capital account.		
(f)	Dec 31	Repairs or other nominal account	950	
		Sewing machines	250	
		Fixtures and equipment	300	
		Alterations		1,500
		To transfer items to proper accounts. (Alternatively one might assume "Alterations" a nominal account.)		
	Dec 31	Sewing machines	4,700	
		Accounts payable—equipment		4,700
		To set up No. 7 purchased and installed prior to 18 Nov 1949.		
	Dec 31	Depreciation sewing machines	1,825	
		Reserve for depreciation		1,825
		Depreciation on cost at 10% straight line.		

D CO. LTD.

Schedule of Sewing Machines and Reserve

to assist in preparation of journal entries*

		Assets	Reserve
January 1		$15,000	$11,800
January 15	No. 1 scrapped	3,500	3,500
		11,500	8,300
April 1	No. 5 cash)	1,750	
	No. 5 note) $3,800	1,750	
	No. 5 installation cost)	300	
		15,300	8,300

June 1	No. 3 destroyed by fire—insurance claim	1,500	2,780
	Balance No. 3	1,975	
		11,825	5,520
July 31	No. 6	3,450	
	No. 6 (value of No. 2 traded)	850	
		16,125	5,520
July 31	No. 2 traded	3,525	2,820
		12,600	2,700
August 21	No. 4 rebuilt	700	
		13,300	2,700
November 18	No. 7 installation	250	
	No. 7	4,700	
		$18,250	$ 2,700

* Not required for solution

PROBLEM 2

Intermediate Examination, October 1950

Accounting I, Question 4 (15 marks)

The F Co. Ltd. operates a retail store. On 31 Dec 1949 a physical inventory was taken and was determined to be $125,000 at selling price and $80,250 at cost.

The next physical inventory was taken on 25 May 1950 immediately after a fire had destroyed or damaged the greater portion of the stock. Undamaged merchandise had been marked to sell at $50,000. Damaged merchandise, which had been marked to sell at $40,000, had an estimated realizable value of $9,538.

The following information is available covering the operations for the period from 1 Jan 1950 to 25 May 1950:

	Selling Price	Cost Price
Purchases	$400,000	$261,000
Sales	325,000	
Mark-downs	10,000	

The company carried $90,000 insurance on their stock and the policy contained an 80% co-insurance clause.

Required:

Determine the fire loss which could be claimed from the insurance company.

A SOLUTION

THE F. CO. LTD.

Inventory destroyed or damaged by fire, 25 May 1950:

Inventory 31 Dec 1949 at selling price		$125,000
Purchases 1 Jan 1950 - 25 May 1950 at selling price		400,000
		$525,000
Less:		
Sales 1 Jan 1950 - 25 May 1950	$325,000	
Mark-downs	10,000	335,000

Selling price of merchandise on hand at date of fire	$190,000
Less:	
Undamaged merchandise at selling price	50,000
Selling price of stock destroyed or damaged	$140,000
Cost of damaged and destroyed stock 65% of $140,000	$ 91,000
Less:	
Salvage value	9,538
Fire Loss	$ 81,462

Cost of goods sold as a percentage of selling price:	Cost	Selling
Inventory 1 Jan 1950	$ 80,250	$125,000
Purchases 1 Jan 1950 - 25 May 1950	261,000	400,000
	$341,250	$525,000

$\% = \frac{341,250}{525,000} \times 100 = 65\%$

Cost of inventory on hand at date of fire 65% of $190,000	$123,500
80% thereof	98,800

Fire loss that could be claimed from the insurance company:

$\frac{90,000}{98,800} \times \$81,462 = \$74,206.27.$

PROBLEM 3

Final Examination, October 1950

Accounting I, Question 2 (30 marks)

The B Mining Co. is engaged in processing into copper concentrates all the ore taken from its own mine and selling the concentrates to refineries.

The books show the following inventories on hand at the beginning and end of the year:

	1 January tons	31 December tons
Raw ore	60,000	30,000
Partly processed ore	6,000	16,000
Copper concentrates	40,000	25,000

Raw ore was carried at annual average market prices of $4.00 and $4.50 per ton at beginning and end of the year respectively.

Partly processed ore was valued for inventory purposes at 110% of the annual average market price of ore as above.

Copper concentrates were carried at $8.90 a ton, a value that was derived from a formula years ago and used ever since as a basis of pricing the copper concentrates on hand.

Ore produced at the mine, 300,000 tons, had been charged to mining costs throughout the year at $4.50 per ton and the corresponding credit of $1,350,000 had been made to a separate earnings account. During the year 30,000 tons of ore were lost in the final stage of the reducing process.

Sales of copper concentrates totalled $1,677,500. Mining expenses of $330,000, including depletion, and expenses re processing of ore of $963,000, including depreciation, had been charged to processing plant expense.

Because the foregoing arbitrary method did not result in acceptable costs and values,

it was accordingly decided to re-state the current year's accounts and show proper costs and inventory values on a first-in, first-out basis.

Costs per ton of material in opening inventories were found to be as follows:

Raw ore	$1.045
Partly processed ore	1.30
Copper concentrates	4.40

It was agreed that partly processed ore in both opening and closing inventories had passed through about 1/10 of the reducing process and should therefore be carried at the cost of the raw ore plus 1/10 of the cost per ton of processing.

Required:

Prepare a comparative statement which sets out the details of mining costs, processing costs, cost of sales and gross profit, under

(a) the former method of calculation and

(b) the revised method of calculation.

The statement should also show units and unit costs.

A SOLUTION

B MINING CO.

STATEMENT OF MINING COSTS, PROCESSING COSTS, ETC.

for the year ended 31 December

	Company Method				Revised Method	
	Units	*per unit*	*Amount*		*per unit*	*Amount*
Sales	305,000	$5.50	$1,677,500		$5.50	$1,677,500
Cost of Sales						
Raw ore:						
Inventory 1 Jan.	60,000	4.00	240,000		1.045	62,700
Produced	300,000	4.50	1,350,000			
Mining costs					1.10	330,000
	360,000		1,590,000			392,700
Inventory 31 Dec.	30,000	4.50	135,000		1.10	33,000
Ore used	330,000	4.409	1,455,000		1.09	359,700
Partly Processed						
Inventory 1 Jan.	6,000	4.40	26,400		1.30	7,800
Processing Plant			963,000	(A)	3.00	963,000
Mining expenses			330,000			
	336,000		2,774,400			1,330,500
Inventory 31 Dec.	16,000	4.95	79,200	(B)	1.40	22,400
Total processed	320,000		2,695,200			1,308,100
Less ore lost in process	30,000					
Tons produced	290,000	9.29	2,695,200		4.511	1,308,100
Copper concentrates						
Inventory 1 Jan.	40,000	8.90	356,000		4.40	176,000
Tons available	330,000		3,051,200			1,484,100
Inventory 31 Dec.	25,000	8.90	222,500	(C)	4.525	113,125

Tons sold	305,000	9.274	2,828,700	4.495	1,370,975
Net loss			1,151,200		
Transferred to earnings			1,350,000		
Profit	305,000	.652	$ 198,800	1.005	$ 306,525

(A) tons used	330,000	(B) Cost of ore used	=	1.10
plus 90% of 6,000 tons	5,400	Processing cost		
		10% of 3.00	=	.30
	335,400			
less 90% of 16,000 tons	14,400			1.40 per ton
	321,000 tons			

(C) Calculation of copper concentrate closing inventory

Cost of tons produced

(1)	6,000 @ ($1.30 + 90% of $3.00 =)	$4.00	24,000
(2)	60,000 @ ($1.045 + $3.00 =)	$4.045	242,700
(3)	254,000 @ ($1.10 + $3.00 =)	$4.10	1,041,400
	320,000		$1,308,100

Shrinkage of 30,000 *tons applied to Tons produced on basis of equivalent tons used to complete production*

6,000	90%	=	5,400	tons
60,000	100%	=	60,000	tons
254,000	100%	=	254,000	tons
			319,400	tons

∴ Tons produced must be reduced by the proportion of the loss that they bear to total tons used to complete production.

Inventory of copper concentrate calculated on first-in, first-out basis will be made up of tons valued as follows:

$$254{,}000 - \frac{254{,}000}{319{,}400} \times 30{,}000 = 254{,}000 - 23{,}857 = 230{,}143 \text{ tons}$$

∴ Cost of closing inventory of copper concentrate calculated on a first-in, first-out basis.

$$\frac{\$1{,}041{,}400}{230{,}143} = \$4.525 \text{ per ton}$$

Editor's Notes:

(1) After careful study the editor concedes that the above method of computing unit cost of copper concentrate closing inventory is probably theoretically correct. As a consolation to those who did not arrive at the above unit cost, however, neither did the editor. His calculation comes close and at least is much simpler, viz.,

Cost of processed ore produced	$1,308,100
No. of tons produced (after deduction of ore lost in process)	290,000 tons
Unit cost of processed ore produced: $\frac{1{,}308{,}100}{290{,}000}$ =	$ 4.51

(2) This problem illustrates that in attempting a solution there is much to be said for at least doing what one can and for writing down what one does know. A considerable portion of the solution is very easy (i.e. the calculation of profit by the company's method) and consists merely in rearranging the data already given in the problem.